US ENERGY CORP
Form 10-Q
August 07, 2009

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 June 30, 2009 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 x Non-accelerated filer o

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 August 6, 2009
Common stock, $.01 par value	21,289,058

U.S. ENERGY CORP.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	June 30, 2009 (Unaudited)	December 31, 2008
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,979	$ 8,434
Marketable securities		
Held to maturity - treasuries	40,877	51,152
Available for sale securities	799	576
Accounts receivable		
Trade	440	600
Reimbursable project costs	3	442
Income taxes	5,962	5,896
Restricted investments	--	4,929
Other current assets	771	738
Total current assets	50,831	72,767
INVESTMENT	3,289	3,455
PROPERTIES AND EQUIPMENT:		
Oil & gas properties under full cost method, net	6,807	7,906
Undeveloped mining claims	22,964	23,950
Commercial real estate, net	23,629	23,998
Property, plant and equipment, net	9,517	9,639
Net properties and equipment	62,917	65,493
OTHER ASSETS	1,061	916
Total assets	$ 118,098	$ 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)

	June 30, 2009 (Unaudited)	December 31, 2008
CURRENT LIABILITIES:		
Accounts payable	$ 441	$ 898
Accrued compensation	664	682
Short-term construction debt	--	16,813
Current portion of long-term debt	200	875
Other current liabilities	242	715
Total current liabilities	1,547	19,983
LONG-TERM DEBT, net of current portion	800	1,000
DEFERRED TAX LIABILITY	8,733	8,945
ASSET RETIREMENT OBLIGATIONS	150	144
OTHER ACCRUED LIABILITIES	707	726
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value; unlimited shares authorized; 21,269,058 and 21,935,129 shares issued, respectively	213	219
Additional paid-in capital	93,374	93,951
Accumulated surplus	12,431	17,663
Unrealized gain on marketable securities	143	--
Total shareholders' equity	106,161	111,833
Total liabilities and shareholders' equity	$ 118,098	$ 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)

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
OPERATING REVENUES:				
Real estate	$745	$313	$1,479	$431
Oil and gas	645	--	1,319	--
Management fees and other	4	16	9	47
	1,394	329	2,807	478
OPERATING COSTS AND EXPENSES:				
Real estate	498	234	1,010	401
Oil and gas	678	--	1,490	--
Impairment of oil and gas properties	--	--	1,063	--
Water treatment plant	576	398	1,019	398
Mineral holding costs	--	414	--	585
General and administrative	1,832	1,782	3,837	4,362
	3,584	2,828	8,419	5,746
OPERATING LOSS	(2,190)	(2,499)	(5,612)	(5,268)
OTHER INCOME & (EXPENSES):				
Gain (loss) on sales of assets	--	(29)	5	(29)
Equity loss	(75)	--	(166)	--
Interest income	89	297	176	851
Interest expense	(20)	(89)	(58)	(108)
	(6)	179	(43)	714
LOSS BEFORE PROVISION FOR INCOME TAXES AND DISCONTINUED OPERATIONS	(2,196)	(2,320)	(5,655)	(4,554)
INCOME TAXES:				
Current benefit from (provision for)	(467)	1,494	210	2,122
Deferred benefit from (provision for)	(222)	(790)	213	(744)
	(689)	704	423	1,378
LOSS FROM CONTINUING OPERATIONS	(2,885)	(1,616)	(5,232)	(3,176)
LOSS FROM DISCONTINUED OPERATIONS	--	(134)	--	(290)
NET LOSS	$(2,885)	$(1,750)	$(5,232)	$(3,466)

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)

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	For the six months ended June 30, 2009	For the six months ended June 30, 2008
PER SHARE DATA				
Basic and diluted loss				
from continuing operations	$(0.13)	$(0.07)	$(0.24)	$(0.14)
Basic and diluted loss				
from discontinued operations	--	--	--	(0.01)
Basic and diluted loss per share	$(0.13)	$(0.07)	$(0.24)	$(0.15)
BASIC AND DILUTED				
WEIGHTED AVERAGE				
SHARES OUTSTANDING	21,311,266	23,615,657	21,481,944	23,682,357

The accompanying notes are an integral part of these statements.

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

	For the six months ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from continuing operations	$(5,232)	$(3,176)
Loss from discontinued operations	--	(290)
Net loss	(5,232)	(3,466)
Reconcile net loss to net cash used in operations		
Depreciation, depletion & amortization	2,070	407
Accretion of discount on treasury investment	(94)	--
Impairment of oil and gas properties	1,063	--
Equity loss from Standard Steam	166	--
Income tax receivable	(66)	(1,341)
Deferred income taxes	(213)	744
Gain on sale of assets	(5)	29
Noncash compensation	837	1,567
Noncash services	35	8
Net changes in assets and liabilities	(534)	(1,804)
NET CASH USED IN OPERATING ACTIVITIES	(1,973)	(3,856)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net investment in treasury investments	$10,369	$(60,298)
Acquisition & development of real estate	(90)	(8,415)
Acquisition of oil & gas properties	(1,283)	(741)
Acquisition & development of mining properties	(10)	--
Minining property option payment	1,000	--
Acquisition of property and equipment	(168)	(70)
Proceeds from sale of property and equipment	5	1,084
Net change in restricted investments	4,782	1,748
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	14,605	(66,692)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	--	1,528
Proceeds from short-term construction debt	--	8,434
Repayments of debt	(17,688)	(38)
Stock buyback program	(1,399)	(1,892)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(19,087)	8,032

The accompanying notes are an integral part of these statements.

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

	For the six months ended June 30, 2009	2008
Net cash provided by operating activities of discontinued operations	--	67
Net cash provided by investing activities of discontinued operations	--	93
Net cash used in financing activities of discontinued operations	--	(35)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,455)	(62,391)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,434	72,292
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,979	$9,901
SUPPLEMENTAL DISCLOSURES:		
Income tax (received) paid	$(144)	$--
Interest paid	$29	$108
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Development of assets through issuance of debt	$--	$8,434
Unrealized gain/(loss)	$143	$96

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 condensed financial statements for the periods ended June 30, 2009 and June 30, 2008 have been prepared by the U.S. Energy Corp. ("USE" or "the Company") without audit 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. It is suggested that these financial statements be read in conjunction with the Company's December 31, 2008 Form 10-K.

Those 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 August 7, 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).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 gas, these estimates could change in the near term and such changes could be material.

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. Gas balancing obligations as of June 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.
Notes to Condensed Financial Statements (Unaudited)
(Continued)

Net Income (Loss) Per Share

The Company reports net income (loss) per share pursuant to Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("SFAS 128"). SFAS 128 specifies the computation, presentation and disclosure requirements for earnings per share. Basic earnings per share are computed based on the weighted average number of common shares outstanding. Common shares held by the ESOP are included in the computation of earnings per share. Total shares held by the ESOP at June 30, 2009 and 2008 were 606,330 and 541,735, respectively. All shares in the ESOP have been allocated to participant accounts. 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 and warrants to purchase common stock, if dilutive. Using the treasury stock method potential common shares relating to options and warrants are excluded from the computation of diluted loss per share for the three months ended June 30, 2009 and 2008 because they were anti-dilutive.

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 reserves 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 June 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 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.
Notes to Condensed Financial Statements (Unaudited)
(Continued)

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

Components of Properties & Equipment
(Amounts in thousands)

	June 30, 2009	December 31, 2008
Oil & Gas properties		
Unevaluated	$ 3,217	$ 2,968
Well in progress	261	--
Evaluated	5,031	5,320
	8,509	8,288
Less Accumulated depreciation		
depletion and mortization	(1,702)	(382)
Net book value	$ 6,807	$ 7,906
Mining properties	$ 22,964	$ 23,950
Commercial real estate	$ 24,562	$ 24,467
Less Accumulated depreciation		
depletion and mortization	(933)	(469)
Net book value	$ 23,629	$ 23,998
Building, land and equipment	$ 14,563	14,399
Less Accumulated depreciation		
depletion and mortization	(5,046)	(4,760)
Net book value	$ 9,517	$ 9,639
Total Property plant & equipment, net	$ 62,917	$ 65,493

Mineral Properties

The Company capitalizes all costs incidental to the acquisition of mineral properties. Mineral exploration costs are expensed as incurred. When exploration work indicates that a mineral property can be economically developed as a result of establishing proved and probable reserves, costs for the development of the mineral property as well as capital purchases and capital construction are capitalized and amortized using units of production over the estimated recoverable proved and probable reserves. Costs and expenses related to general corporate overhead are expensed as incurred. All capitalized costs are charged to operations if the Company subsequently determines that the property is not economical due to permanent decreases in market prices of commodities, excessive production costs or depletion of the mineral resource.

Mineral properties at June 30, 2009 and December 31, 2008 reflect capitalized costs associated with the Company's Mount Emmons molybdenum property near Crested Butte, Colorado. The Company has entered into an agreement with Thompson Creek Metals Company USA ("TCM") to develop this property. TCM may earn up to a 75% interest in the project for the investment of $400 million. The Company received the first of six annual payments in the amount of $1.0 million in January 2009. This payment was applied as a reduction of the Company's investment in the Mount Emmons property. No impairment was therefore taken during either period on the Mount Emmons molybdenum property.

U.S. Energy Corp.
Notes to Condensed Financial Statements (Unaudited)
(Continued)

Oil and Gas Properties

The Company uses the full cost method to account for its oil and natural gas operations. Accordingly, the costs to acquire, explore for and develop oil and natural gas properties are capitalized. Capitalized costs of oil and gas properties, net of accumulated Depreciation, Depletion and Amortization ("DD&A") and related deferred taxes, are limited to the estimated future net cash flows from proved oil and gas reserves, discounted at 10%, plus the lower of cost or fair value of unproved properties, as adjusted for related income tax effects (the full cost ceiling). If capitalized costs exceed the full cost ceiling, the excess is charged to ceiling test write down of oil and gas properties in the quarter in which the excess occurs.

Full cost pool capitalized costs are amortized over the life of production of proven properties. Capitalized costs at June 30, 2009 and December 31, 2008 which were not included in the amortized cost pool were $3.2 million and $3.0 million, respectively. These costs consist of seismic costs that are being analyzed for potential drilling locations as well as land costs. It is anticipated that these costs will be added to the full cost amortization pool in the next two years as properties are evaluated, drilled or abandoned.

Impairment of Oil and Gas Properties – Primarily due to the low market price for gas at March 31, 2009, the Company recorded a $1.1 million non-cash ceiling test write down of its oil and gas properties during the first quarter of 2009. At June 30, 2009, the Company computed the estimated future net cash flows from its proved oil and gas reserves, discounted at 10%, using quarter end prices of $3.70 per Mcf of gas and $69.82 per barrel of oil. Capitalized costs for oil and gas properties at June 30, 2009 do not exceed the ceiling test limit and no further impairment was recorded.

Wells in Progress - Wells in progress represent the costs associated with wells that have not reached total depth or been completed as of period end. They are classified as wells in progress and withheld from the depletion calculation and the ceiling test. The costs for these wells are then transferred to evaluated property when the wells reach total depth and are cased and the costs become subject to depletion and the ceiling test calculation in future periods.

Long Lived Assets

The Company evaluates its long-lived assets, which consist of commercial real estate, for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. Impairment calculations are based on market appraisals. If rental rates decrease or costs increase to levels that result in estimated future cash flows, on an undiscounted basis, that are less than the carrying amount of the related asset, an asset impairment is considered to exist. Changes in significant assumptions underlying future cash flow estimates may have a material effect on the Company's financial position and results of operations. At June 30, 2009 and December 31, 2008 and 2007, no impairment existed on the Company's long lived assets as the appraised value at December 31, 2008 exceeded construction and carrying value and rental rates remained strong and costs within projected limits.

4) Asset Retirement Obligations

The Company accounts for its asset retirement obligations under SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company records the fair value of the reclamation liability on its inactive mining and oil and gas properties as of the date that the liability is incurred. The Company reviews the liability each quarter and determines if a change in estimate is required and also accretes the discounted liability on a quarterly basis for the future liability. Final determinations are made during the fourth quarter of each year. The Company deducts any actual funds expended for reclamation during the quarter in which it occurs.

U.S. Energy Corp.
Notes to Condensed Financial Statements (Unaudited)
(Continued)

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

Asset Retirement Obligations
(Amounts in thousands)

	June 30, 2009	December 31, 2008
Beginning asset retirement obligation	$ 144	$ 133
Accretion of discount	6	9
Liabilities incurred	--	25
Liabilities settled	--	(23)
Ending asset retirement obligation	$ 150	$ 144

5) Other Comprehensive Income (Loss)

Unrealized gains and losses on investments are excluded from net income but are reported as comprehensive income on the Condensed Balance Sheets under Shareholders' equity. The following table reconciles net loss to comprehensive loss:

Comprehensive Income (loss)
(Amounts in thousands)

	For the three months ending June 30,		For the six months ending June 30,	
	2009	2008	2009	2008
Net loss	$ (2,885)	$ (1,750)	$ (5,232)	$ (3,466)
Comprehensive gain/(loss) from the unrealized gain/(loss) on marketable securities	(231)	(56)	223	(175)
Deferred income taxes on marketable securities	79	22	(80)	45
Comprehensive (loss)/gain	$ (3,037)	$ (1,784)	$ (5,089)	$ (3,596)

6) Long term debt

On January 16, 2009, the Company paid $16.8 million to Zions National Bank to retire the construction loan for its multifamily housing project in Gillette, Wyoming. The housing project is a 216 unit apartment complex on 10.15 acres and cost a total of $24.5 million to construct.

At June 30, 2009, long term debt consists of debt related to the purchase of land which bears an interest rate of 6% per annum. The debt is due in five equal payments of $200,000, plus accrued interest, beginning on January 2, 2010 through January 2, 2014:

(Amounts in thousands)

	June 30, 2009	December 31, 2008
Short term Debt		
Construction note - collateralized by property, interest at 2.71%	$ --	$ 16,813
Long term Debt		
Real estate note - collateralized by property, interest at 6%	$ 1,000	$ 1,875
Less current portion	(200)	(875)
Totals	$ 800	$ 1,000

U.S. Energy Corp.
Notes to Condensed Financial Statements (Unaudited)
(Continued)

7) Shareholders’ Equity

Common Stock

During the three and six months ended June 30, 2009, the Company issued 20,000 and 40,000 shares, respectively, of common stock to officers of the Company pursuant to the 2001 Stock Compensation Plan. The Company recorded \$37,000 and \$71,400 in compensation expense as a result of the issuance of these shares during the three and six months ended June 30, 2009. The Company also purchased 706,071 shares of its common stock during the six months ended June 30, 2009 to finish its \$8.0 million stock buyback plan. From inception the Company purchased a total of 3,094,200 shares for \$8.0 million or an average of \$2.59 per share under the stock buyback plan.

The following table details the changes in common stock during the six months ended June 30, 2009:

(Amounts in thousands, except for share amounts)

	Common Stock		Additional
	Shares	Amount	Paid-In Capital
Balance December 31, 2008	21,935,129	$ 219	$ 93,951
2001 stock compensation plan	40,000	1	70
Expense of employee options	-	-	709
Stock options issued to outside directors	-	-	28
Expense of company warrants issued	-	-	7
Common stock buy back program	(706,071)	(7)	(1,391)
	21,269,058	$ 213	$ 93,374

Stock Option Plans

The Board of Directors adopted, and the shareholders approved, the U.S. Energy Corp. 2001 Incentive Stock Option Plan (the "2001 ISOP") for the benefit of USE's employees. The 2001 ISOP reserves for issuance shares of the Company’s common stock equal to 25% of the Company’s shares of common stock issued and outstanding at any time. The 2001 ISOP has a term of 10 years.

During the three and six months ending June 30, 2009, the Company recognized $357,000 and $709,000, respectively in compensation expense related to employee options. During the three and six months ended June 30, 2008 the Company recognized $344,000 and $688,000, respectively in compensation expense related to employee stock options. The Company computes the fair values of its options granted using the Black-Scholes pricing model.

Warrants to Others

From time to time the Company issues stock purchase warrants to non-employees for services. During the three and six months ended June 30, 2009, the Company recorded $16,000 and $35,000, respectively, in expense for warrants issued to third parties and $8,000 associated with warrants during the six months ended June 30, 2008. The Company will recognize an additional $136,000 in expense over the life of the outstanding warrants.

U.S. Energy Corp.
Notes to Condensed Financial Statements (Unaudited)
(Continued)

The following table represents the activity in employee stock options and non-employee stock purchase warrants for the six months ended June 30, 2009:

	June 30, 2009			
	Employee Stock Options		Stock Purchase Warrants	
	Options	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding balance at December 31, 2008	3,717,098	$ 3.63	1,036,387	$ 3.43
Granted	-	$ -	-	$ -
Forfeited	-	$ -	-	$ -
Expired	-	$ -	(101,789)	$ 7.02
Exercised	-	$ -	-	$ -
Outstanding at June 30, 2009	3,717,098	$ 3.63	934,598	$ 3.04
Exercisable at June 30, 2009	2,432,932	$ 3.50	804,598	$ 3.13
Weighted Average Remaining Contractual Life - Years		6.08		2.85
Aggregate intrinsic value of options / warrants outstanding		$ -		$ -

8)Income Taxes

The Company completed book and tax basis studies during the six months ended June 30, 2009 and discovered a previously unrecorded difference between its tax basis and its book basis in fixed assets. A non-cash adjustment of the associated deferred tax liability and deferred income tax expense in the amount of $1.1 million was made during the six months ended June 30, 2009 to reflect this difference. In addition, due to an increased presence in certain states such as Louisiana, the Company determined that an increase to its effective tax rate from 35% to 36% is necessary. This increase resulted in a non cash charge to deferred income tax expense and deferred tax liability of $.3 million.

9) Oil and Gas Exploration Activities

The Company participates in oil and gas projects as a non-operating working interest owner and has active agreements with several oil and gas exploration and production companies. Our working interest varies by project, but typically ranges from approximately 5% to 25%. These projects may result in numerous wells being drilled over the next three to five years.

During January and February of 2009, the Company drilled a well in northeastern Wyoming with a nonaffiliated company. The drilling resulted in a dry hole at an approximate cost of $401,000 to the Company. The Company is evaluating whether it will participate in any additional wells on this prospect.

U.S. Energy Corp.
Notes to Condensed Financial Statements (Unaudited)
(Continued)

The Company paid TLPC Holdings, Ltd, an affiliate of Texas Land & Petroleum Company, LLC ("TL&P") a private Texas company, a $45,000 prospect fee and signed an agreement for an oil well drilling program on the Hopkins Prospect in Wood County, Texas, located about 50 miles east of Dallas. The Company will participate in the first well on a one-third for one quarter basis (33% of drilling and completion costs, for a 25% working interest (18.75% net revenue interest)). Upon participation in the first well, the Company will own its share of all the acreage. Subsequent wells will be unpromoted (25% of costs). TL&P holds 50% of the working interest. No drilling had occurred on the TL&P prospect as of June 30, 2009. The Company indicated to TL&P that if drilling does not commence during the third quarter of 2009 that it will request a refund of its prospect fee and will withdraw from the prospect.

In May and June of 2009, the Company drilled two wells in eastern Texas with a nonaffiliated company. One well has been determined to be productive and the other a dry hole with net costs to the Company of $261,000 and $95,000, respectively. It is anticipated that the productive well will commence production in the third quarter of 2009.

Approximately $9.5 million has been expended under all oil and gas agreements the Company has entered into through June 30