US ENERGY CORP
Form 10-Q
May 11, 2015

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 quarterly period ended March 31, 2015 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 Regulation 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

At May 5, 2015 there were 28,047,661 outstanding shares of the Company's common stock, $0.01 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 CONSOLIDATED BALANCE SHEETS
ASSETS
(Unaudited)
(In thousands, except shares)

	March 31, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$3,976	$4,010
Available for sale securities	25	25
Accounts receivable trade	1,404	3,177
Other current assets	227	288
Total current assets	5,632	7,500
Oil and gas properties under full cost method,		
Proved oil and gas properties	133,227	147,486
Unproved oil and gas properties	9,200	10,188
Exploratory wells in progress	368	2,357
less depletion, depreciation and amortization	(74,636)	(71,762)
Net oil and gas properties	68,159	88,269
Undeveloped mining claims	21,942	21,942
Property, plant and equipment, net of accumulated depreciation of $4,441 and $4,404	3,879	3,942
Other assets	1,887	1,870
Total assets	$101,499	$123,523

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands, except shares)

	March 31, 2015	December 31, 2014
Current liabilities:		
Accounts payable	$8,879	$7,441
Accrued compensation	483	441
Commodity risk management liability	63	--
Other current liabilities	79	84
Total current liabilities	9,504	7,966
Noncurrent liabilities:		
Long-term debt	6,000	6,000
Asset retirement obligations	1,178	1,133
Other accrued liabilities	1,010	1,029
Total noncurrent liabilities	8,188	8,162
Commitments and contingencies:		
Shareholders' equity:		
Common stock, $0.01 par value; unlimited shares authorized 28,388,372 shares issued and 28,047,661 outstanding at March 31, 2015, 28,047,661 issued and outstanding at December 31, 2014	280	280
Additional paid-in capital	124,095	123,980
Accumulated deficit	(40,512)	(16,809)
Other comprehensive loss	(56)	(56)
Total shareholders' equity	83,807	107,395
Total liabilities and shareholders' equity	$101,499	$123,523

The accompanying notes are an integral part of these statements.

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U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands except share and per share data)

	Three months ended March 31, 2015	2014
Revenues:		
Oil sales	$2,297	$7,574
Gas sales	331	481
NGL sales	51	201
Total revenues	2,679	8,256
Operating expenses:		
Oil and gas	1,852	1,972
Oil and gas depreciation, depletion and amortization	2,874	3,294
Impairment of oil and gas properties	19,240	--
Water treatment plant	458	457
Mineral holding costs	295	300
General and administrative	1,479	1,606
Total operating expenses	26,198	7,629
(Loss) income from operations	(23,519)	627
Other income and (expenses):		
Realized (loss) on risk management activities	(114)	(158)
Unrealized (loss) on risk management activities	(63)	(173)
Gain on the sale of assets	16	28
Miscellaneous income	39	21
Interest income	1	1
Interest expense	(63)	(96)
Total other income and (expenses)	(184)	(377)
(Loss) income before income taxes	(23,703)	250

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands except share and per share data)

	Three months ended March 31, 2015	2014
Income taxes:		
Current (provision for)	--	--
Deferred benefit from	--	--
	--	--
Net (loss) income	$(23,703)	$250
(Loss) Earnings per share basic and diluted		
(Loss) earnings	$(0.85)	$0.01
	$(0.85)	$0.01
Weighted average shares outstanding		
Basic	28,047,661	27,738,083
Diluted	28,047,661	28,142,253

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	Three months ended March 31, 2015	2014
Net (loss) income:	$(23,703)	$250
Other comprehensive (loss):		
Marketable securities, net of tax	--	(25)
Total comprehensive (loss) income	$(23,703)	$225

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the three months ended March 31, 2015	2014
Cash flows from operating activities:		
Net (loss) income	$(23,703)	$250
Adjustments to reconcile net (loss) income to net cash provided by operations		
Depreciation, depletion & amortization	2,941	3,362
Change in fair value of commodity price risk management activities, net	63	173
Impairment of oil and gas properties	19,240	--
(Gain) on sale of assets	(16)	(28)
Noncash compensation	158	143
Noncash services	20	17
Accounts payable	567	270
Overpayment by operators	742	128
Net changes in assets and liabilities	1,809	54
Net cash provided by operating activities	1,821	4,369
Cash flows from investing activities:		
Acquisition and development of oil and gas properties	(1,843)	(8,495)
Acquisition of property, plant and equipment	(4)	(1,202)
Proceeds from sale of property and equipment	16	28
Net change in restricted investments	(24)	(16)
Net cash (used in) investing activities:	(1,855)	(9,685)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.

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

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the three months ended March 31, 2015	2014
Cash flows from financing activities:		
Issuance of common stock	--	(27)
Proceeds from new debt	--	2,000
Net cash provided by financing activities	--	1,973
Net (decrease) in cash and cash equivalents	(34)	(3,343)
Cash and cash equivalents at beginning of period	4,010	5,855
Cash and cash equivalents at end of period	$3,976	$2,512
Supplemental disclosures:		
Interest paid	$63	$96
Non-cash investing and financing activities:		
Unrealized change from available for sale securities	$--	$25
Acquisition and development of oil and gas properties through accounts payable	$128	$596
Acquisition and development of oil and gas properties through asset retirement obligations	$33	$76

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for the periods ended March 31, 2015 and March 31, 2014 have been prepared by U.S. Energy Corp. ("we," "us," "U.S. Energy" or the "Company") in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The financial statements at March 31, 2015 and December 31, 2014 include the Company's wholly owned subsidiary Energy One LLC ("Energy One"), which owns the majority of the Company's oil and gas assets. The Condensed Consolidated Balance Sheet at December 31, 2014 was derived from audited financial statements. In the opinion of the Company, the accompanying condensed consolidated 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. Entities in which the Company holds at least 20% ownership or in which there are other indicators of significant influence are accounted for under the equity method, whereby the Company records its proportionate share of the entities' results of operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted and certain prior period amounts have been reclassified to conform to the current period presentation. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 10-K"). Subsequent events have been evaluated for financial reporting purposes through the date of the filing of this Form 10-Q.

2) Summary of Significant Accounting Policies

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB determines GAAP, which we follow to ensure we consistently report our financial condition, results of operations, and cash flows.

For detailed descriptions of our significant accounting policies, please see the 2014 10-K (Note B, pages 87 to 96).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include oil and gas reserves used for depletion and impairment considerations, accrued revenue and related receivables, valuation of commodity derivative instruments and the cost of future asset retirement obligations. The Company evaluates its estimates on an on-going basis and bases its estimates on historical experience and on various other assumptions the Company believes to be reasonable under the circumstances. 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.

U.S. ENERGY CORP.

Notes to Condensed Consolidated 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 property 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 unproved properties.

Full Cost Pool - Full cost pool capitalized costs are amortized over the life of production of proven properties. Capitalized costs at March 31, 2015 and December 31, 2014 which were not included in the amortized cost pool were $9.6 million and $12.5 million, respectively. These costs consist of exploratory wells in progress, seismic costs that are being analyzed for potential drilling locations and land costs related to unevaluated properties. No capitalized costs related to unevaluated properties are included in the amortization base at March 31, 2015 or December 31, 2014.

Ceiling Test Analysis - 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 average prices per barrel of oil and per MMbtu of natural gas at the first day of each month in the 12-month period prior to the end of the reporting period and costs, adjusted for contract provisions and financial derivatives that hedge our 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, reduced by (iv) the income tax effects related to differences between the book and tax basis of the crude oil and natural gas 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.

We perform a quarterly ceiling test for each of our oil and gas cost centers. There is only one such cost center in 2015. The reserves used in the ceiling test and the ceiling test itself incorporate assumptions regarding pricing and discount rates over which management has no influence in the determination of present value. In arriving at the ceiling test for the quarter ended March 31, 2015, we used prices of $82.72 per barrel for oil and $3.882 per MMbtu for natural gas (and adjusted for property specific gravity, quality, local markets and distance from markets) to compute the future cash flows of our producing properties. The discount factor used was 10%.

Primarily due to the lower oil prices, the Company recorded a proved property impairment of $19.2 million related to its oil and gas assets during the three months ended March 31, 2015. Management will continue to review our unproved properties based on market conditions and other changes and, if appropriate, unproved property amounts may be reclassified to the amortized base of properties within the full cost pool. Recent declines in the price of oil have significantly increased the risk of ceiling test write-downs in future periods.

U.S. ENERGY CORP.

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

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

Mineral Properties

We capitalize 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 we subsequently determine that the property is not economical due to permanent decreases in marke