

US ENERGY CORP
Form S-3
April 22, 2005

As filed with the Securities and Exchange Commission on April __, 2005

Registration No. 333-_____
Securities and Exchange Commission
Washington, D.C. 20549

FORM S-3

Registration Statement
Under the Securities Act of 1933

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, Wyoming 82501; Tel. 307.856.9271

(Address, including zip code, and telephone number, including area code,
of issuer's principal executive offices)

Daniel P. Svilar, 877 North 8th West
Riverton, WY 82501; Tel. 307.856.9271

(Name, address, including zip code, and telephone number of agent for service)

Copies to: Stephen E. Rounds, Esq.
The Law Office of Stephen E. Rounds
1544 York Street, Suite 110, Denver, CO 80206
Tel: 303.377.6997; Fax: 303.377.0231

Approximate date of commencement and end of proposed sale to the public: From time to time after the registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. []

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

Edgar Filing: US ENERGY CORP - Form S-3

registration statement for the same offering: _____

If this Form is a post_effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount of Securities to be Registered in the Offering	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Dollar Price of Securities to be Registered	Amount of Fee
Common Stock	2,913,582 Shares (1)	\$ 4.03	\$ 11,741,735	\$ 1,383
Common Stock	1,606,793 Shares (2)	\$ 4.03	\$ 6,475,376	\$ 762
Total Securities to be Registered	4,520,375 Shares		\$ 18,217,111	\$ 2,145

(1) These shares (being issued for resale) are issuable on conversion of outstanding debentures (principal and interest) at a conversion price of \$2.43. However, pursuant to agreement with the debenture holders, the total number of shares being registered equals 150% of the shares issuable on conversion. The number of shares presently issuable on conversion is 1,942,387. The 50% increase (to 2,913,580 shares) is being registered in the event the number of shares issuable on conversion is increased by operation of anti-dilution provisions in the debentures, resulting in a conversion price lower than \$2.43.

(2) These shares (being registered for resale) are issuable on exercise of warrants, at \$3.63 per share. However, pursuant to agreement with the warrant holders, the total number of shares being registered equals 150% of the shares issuable on exercise of the warrants. The number of shares presently issuable on exercise is 1,071,195. The 50% increase (to 1,606,793) is being registered in the event the number of shares issuable on exercise is increased by operation of anti-dilution provisions in the warrants, resulting in an exercise price lower than \$3.63.

Pursuant to rule 457(c), registration fee calculations are estimated based on the \$4.03 Nasdaq reported High Sales Price on April 18, 2005.

Delaying amendment under rule 473(a): The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to section 8(a), may determine.

The information in this prospectus is subject to completion or amendment. The securities covered by this prospectus cannot be sold until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of that state.

The information in this prospectus is subject to completion or amendment. The securities covered by this prospectus cannot be sold until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of that state.

**U.S. Energy Corp.
4,520,375 Shares of Common Stock**

This prospectus covers the offer and sale of up to 4,520,375 shares of common stock (\$0.01 par value): 2,913,582 shares which may be issued on conversion of outstanding debentures (\$4,720,000 principal and interest) at \$2.43 per share (with the number of shares multiplied by 150%) and up to 1,606,793 shares which may be issued on exercise of outstanding warrants at \$3.63 per share (with the number of shares multiplied by 150%). The number of shares covered by this prospectus equals 150% of the shares issuable on debenture conversion and warrant exercise, to allow for possible downward adjustments in the conversion and exercise prices (which would result in an increased number of shares issued) pursuant to the anti-dilution provisions in the debentures and warrants. As of the date of this prospectus, we know of no events which would result in price adjustments.

In this prospectus, "selling shareholder" or "selling shareholders" refer to the seven investors who hold the debentures and warrants on 4,370,375 shares, and HPC Capital Management, a registered broker-dealer, which holds warrants on 150,000 shares (in both cases, allowing for an increase of 50% in the number of shares issuable if the conversion and exercise prices were to be adjusted down under the anti-dilution provisions). For information about the selling shareholders, and the transaction in which they acquired the debentures and warrants, see "Selling Shareholders."

In this prospectus, and the information incorporated by reference, "we," "company," and "USE" refer to U.S. Energy Corp. (and its subsidiaries unless otherwise specifically stated).

The selling shareholders may sell the shares from time to time in negotiated transactions, brokers' transactions or a combination of such methods of sale at market prices prevailing at the time of sale or at negotiated prices. See Plan of Distribution. Although we will receive proceeds to the extent the warrants are exercised, we will not receive any proceeds from sale of the shares offered by the selling shareholders. None of the debentures or warrants have been converted or exercised at prospectus date.

USE is traded ("USEG") on the Nasdaq Small Cap Market (\$3.95 on April 20, 2005).

An investment in the shares offered by this prospectus is speculative and subject to risk of loss. See "Risk Factors" beginning on page 9 and the table of contents on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is May __, 2005

TABLE OF CONTENTS

	Page No.
<u>Summary</u> Information	6
<u>The</u> Company	6
<u>The</u> Offering	9
<u>Risk</u> Factors	9
<u>Risk</u> Factors Involving the Company	9
<u>Lack</u> of established reserves for most of the coalbed methane properties may slow down future exploration of these properties.	9
<u>A return</u> to low gas prices for Powder River Basin production may hurt our business	10
<u>We have</u> a history of losses and limited capital	10
<u>We are</u> subject to certain kinds of risks which are unique to the minerals business	10
<u>Delays</u> in obtaining permits for methane wells could impair our business	11
<u>The</u> Company's poison pill could discourage some advantageous transactions	11
<u>Compliance</u> with environmental regulations may be costly	11
<u>Commodity</u> price fluctuations may be difficult to manage and could cause losses	12
<u>Future</u> equity transactions, including exercise of options or warrants, could result in dilution	12
<u>Terms</u> of subsequent financings may adversely impact your investment	12
<u>Risk</u> Factor Involving This Offering	12
<u>Representations</u> About This Offering	13

<u>Forward</u> Looking Statements	13
<u>Description</u> of Securities	13
<u>Use</u> of Proceeds	16
<u>Selling</u> Shareholders	16
<u>Plan</u> of Distribution	18
<u>Disclosure</u> of Commission Position on Indemnification	20
<u>Where</u> to Find More Information About Us	21
<u>Incorporation</u> of Certain Information by Reference	21
<u>Legal</u> Matters	22
<u>Experts</u>	22

Summary Information

The following summarizes all material information found elsewhere in this prospectus and the information incorporated into it by reference. This summary is qualified by the more detailed information in this prospectus and the information incorporated by reference.

The Company

U.S. Energy Corp. ("USE" or the company) is a Wyoming corporation (formed in 1966) in the business of acquiring, exploring, developing, operating, and/or selling or leasing mineral properties. USE and Crested Corp. ("Crested") originally were independent companies, with two common affiliates (John L. Larsen and Max T. Evans; Mr. Evans died in February 2002). In 1980, USE and Crested formed a joint venture ("USECC") to do business together (unless one or the other elected not to pursue an individual project). From time to time, USE has funded many of Crested's obligations because Crested did not have the funds to pay its own obligations. Crested has paid a portion of this debt by issuing common stock to USE. At December 31, 2004, Crested owed \$9,650,900 to USE.

Historically, our business strategy has been, and will continue to be, acquiring grass roots and/or developed mineral properties when commodity prices are low (such as they have been in natural gas, gold, uranium and molybdenum), then operating, selling, leasing or joint venturing the properties, or selling the companies we set up to hold and explore or develop the properties to other companies in the mineral sector when prices are moving upward.

Typically, projects initially are acquired, financed and operated by USE and Crested in their joint venture (see below). From time to time, some of the projects are then transferred to separate companies organized for that purpose, with the objective of raising capital from an outside source for further development and/or joint venturing with other companies. Examples of this corporate strategy are, for gold properties, Sutter Gold Mining Inc. (formerly Globemin Resources Inc., a publicly traded British Columbia company, which acquired Sutter Gold Mining Company, and then changed its name to Sutter Gold Mining Inc.); and Rocky Mountain Gas, Inc. for coalbed methane (CBM) gas. Additional subsidiaries may be organized in the future such as U.S. Uranium Ltd. for uranium and U.S. Moly Corp. for molybdenum. Initial ownership of these subsidiaries is by USE and Crested, with additional stock (plus options) held by their officers, directors and employees.

In 2002 and 2003, USE's primary business focus was in the CBM business conducted through its subsidiary Rocky Mountain Gas, Inc. ("RMG"). In 2004 and into 2005, commodity prices for the minerals in all our properties (and for molybdenum, the property that we expect to receive back from Phelps Dodge Corporation) increased significantly. Accordingly, in 2004 and continuing into 2005, our business activity has been expanding to include the gold, uranium and molybdenum properties.

Principal executive offices of USE and Crested are located in the Glen L. Larsen building at 877 North 8th West, Riverton, Wyoming 82501, telephone 307-856-9271. RMG has a field office in Gillette, Wyoming. Sutter Gold Mining Inc. has an office in Sutter Creek, California.

Capital Activities in 2004 and First Quarter 2005.

USE

\$350,000 Equity - 2004. In the first quarter 2004, we obtained \$350,000 of equity funding from an accredited investor (100,000 shares of USE common stock, three year warrants to purchase 50,000 shares of USE common stock, at \$3.00 per share; and five year warrants to purchase 200,000 shares at \$3.00 per share).

\$3,000,000 Loan - 2004. In the third quarter 2004, we borrowed \$3,000,000 from Geddes and Company of Phoenix, Arizona. The loan matures on July 30, 2006, bears 10% annual interest, and is secured principally by RMG's CBM properties in the Castle Rock prospect and 4,000,000 shares of RMG stock held by USE. The loan may be prepaid in cash without penalty, but the lender at any time may convert loan principal to RMG common stock at \$3.00 per share on the first \$1,500,000 converted; and at \$3.25, \$3.50 and \$3.75 per share for each additional \$500,000 converted. In connection with the loan, RMG issued to the lender five year warrants to buy 600,000 shares of common stock of RMG: \$3.00 per share for 300,000 shares; and \$3.25, \$3.50 and \$3.75 per share for 100,000 shares at each price.

\$4,720,000 Loan - First Quarter 2005. On February 9, 2005, we borrowed \$4,000,000 from seven accredited investors, issuing \$4,720,000 face amount of debentures (including three years of annual interest at 6%). Net proceeds to USE were \$3,700,000 after paying a commission and lenders' legal costs.

The debentures are convertible to shares of common stock. Warrants to purchase common stock were issued to the investors and to HPC Capital Management, a registered broker-dealer. Resale of the shares underlying the debentures and the warrants are covered by this prospectus. See Description of Securities.

RMG

Preferred Stock - 2004. In the first quarter 2004, RMG raised \$1,800,000 of equity financing from the sale of shares of Series A Preferred Stock in RMG, and warrants to purchase shares of common stock of USE, to institutional investors. Proceeds were used to pay part of the Hi-Pro acquisition price, and for RMG working capital. As of March 3, 2005, all Series A Preferred Stock including dividends has been converted to and paid with USE common stock (894,299 shares), and all warrants have been exercised (150,000 shares of USE common stock).

Purchase of the Hi-Pro Production, LLC ("Hi-Pro") Properties. In 2004, RMG organized a wholly-owned subsidiary RMG I, LLC for the purchase of producing and non-producing CBM properties (the "Hi-Pro properties") near Gillette, Wyoming. RMG and USE participated in raising equity capital and mezzanine financing for this transaction.

Agreement for Acquisition of RMG by Enterra Energy Trust. As of April 11, RMG entered into a binding agreement with Enterra Energy Trust ("Enterra," a Calgary, Alberta trust whose units are listed on the Toronto Stock Exchange and Nasdaq), for the acquisition of RMG by Enterra for approximately \$6.0 million in cash and \$14 million of exchangeable shares of Enterra Energy Corp., the administrator of Enterra. If the acquisition is closed, twelve months thereafter the exchangeable shares will be exchanged for Enterra units. Enterra would acquire RMG including approximately \$3.49 million owed by RMG to its lenders. Closing of this transaction is subject to approval of the RMG shareholders, satisfactory conclusion of due diligence by Enterra, and obtaining regulatory and stock exchange approvals. RMG's minority equity interest in Pinnacle Gas Resources, Inc. will not be acquired by Enterra, however, Enterra will be entitled to be paid up to (but not more than) \$2,000,000 if proceeds from a future disposition of the minority equity interest in Pinnacle exceed \$10,000,000.

Sutter Gold Mining Inc.

In 2004, Sutter Gold Mining Company, a majority-owned subsidiary with gold properties in California, was acquired by Globemin Resources Inc., a British Columbia corporation which is traded on the TSX Venture Exchange (TSX-V) under its new name, Sutter Gold Mining Inc. A total of Cdn \$1,061,800 of equity capital has been raised to continue exploration work on the properties.

Molybdenum

In February 2005, the United States District Court in Colorado issued an order authorizing Phelps Dodge to return mining claims at Mt. Emmons (near Crested Butte, Colorado) to USE and Crested, including a water treatment plant and the responsibility for operating it. The mining claims contain a world class molybdenum deposit. In 2005, USE and Crested expect to receive back from Phelps Dodge Corporation the patented and unpatented mining claims containing the molybdenum deposit. There are no current plans to put these properties into production but various strategies are being evaluated, including putting the property into production, or selling or leasing the property to (or joint venturing the property with) other entities. These strategies will require resolution of significant permitting issues and substantial amounts of capital. In 2005, we expect to transfer the properties to a new subsidiary, U.S. Moly Corp.

Uranium

In December 2004, USE and Crested agreed to sell a 50% interest in the Sheep Mountain (Wyoming) uranium properties to Bell Coast Capital Corp., now named Uranium Power Corp ("UPC"), a British Columbia company trading on the TSX Venture Exchange, for \$4,050,000 and 4,000,000 shares of UPC common stock payable by installments through December 2007. The parties entered into a Mining Venture Agreement on April 11, 2005 to form a joint venture for the Sheep Mountain property and other properties to be acquired, with UPC expected to provide additional initial funding of up to \$10,000,000 for up to 20 different projects. The parties each have a 50% participating interest in the joint venture; USE and Crested (doing business as the USECC Joint Venture) is the manager of the joint venture.

Plateau Resources Limited (a wholly-owned subsidiary of USE) agreed in December 2004 to lease uranium properties now controlled or owned (and to be acquired) by a third party in reasonable proximity to Plateau's Shootaring Canyon Mill ("Shootaring Mill") in southeastern Utah. The purpose of this agreement is to obtain uranium properties for future mining to supply the Shootaring Mill, which we plan to put into production.

In 2005, we expect to transfer the uranium claims, and Plateau Resources Limited to a new subsidiary, U.S. Uranium Ltd. We have filed a request with the State of Utah for an operational license to reopen and operate the Shootaring Mill.

The Offering

Securities Outstanding	16,358,137 shares of common stock outstanding at April 7, 2005, \$0.01 par value.
Securities To Be Outstanding	20,878,512 shares of common stock, assuming all debentures are converted and all warrants are exercised, in both cases assuming the anti-dilution provisions of the debentures and warrants are triggered to result in the full amount of 4,520,375 shares being issued on conversion and exercise. If the anti-dilution provisions are not triggered, 3,013,582 shares would be issued on conversion and exercise, which would result in 19,371,719 shares outstanding. See Description of Securities and Selling Shareholders.
Securities Offered	4,520,375 shares of common stock owned or to be owned by the selling shareholders, assuming the anti-dilution provisions of the debentures and warrants are triggered.
Use of Proceeds	We will not receive any proceeds from sale of shares by the selling shareholders, but we will receive up to \$3,888,438 in proceeds if the warrants are exercised (assuming no adjustments for anti-dilutive events), which proceeds will be used by the company for working capital.
Plan of Distribution	The offering is made by the selling shareholders named in this prospectus, to the extent they sell shares. Sales may be made in the open market or in private negotiated transactions, at fixed or negotiated prices. See "Plan of Distribution."
Risk Factors	An investment is subject to risk. See "Risk Factors."

Risk Factors

An investment in our common stock is speculative in nature and involves a high degree of risk. You should carefully consider the following risks and the other information in this prospectus (including the information incorporated by reference) before investing.

Risk Factors Involving the Company

Lack of established reserves for most of the coalbed methane properties may slow down further exploration of these properties. We have proved reserves only in the Hi - Pro field. No reserves have been established for the other properties, because we have not drilled and tested enough wells on the properties to determine if we have economic reserves of coalbed methane in place. For some properties, we will have to establish at least some reserve parameters before gas transmission companies will build gas lines to our properties, and construction of lines will depend also on then-current and projected market prices for gas. If we have the necessary capital, we may elect to build our own lines over to existing transmission lines near our properties in the Powder River Basin of Wyoming and Montana. We can't sell production until the lines and associated gathering lines and compression stations are constructed.

Due to permitting delays in Montana, we may not realize production from these Montana properties until mid-2006, or later. Other Wyoming properties could be in production in 2006, but production might be delayed due to low market prices for gas. Low market prices could delay gas purchasers from building the necessary lines to move gas from our properties to the major gas transmission lines.

These factors may make it difficult to raise the amount of capital needed to further explore the coalbed methane production potential in our properties in a rapid manner. Therefore, we may have to seek to raise capital. In the meantime, we have only limited working capital. As of April 11, 2005, RMG entered into a binding agreement with Enterra Energy Trust (Enterra) for Enterra to acquire RMG. If Enterra acquires RMG, we will continue to hold a passive interest in a public oil and gas company (Enterra) and will hold a minority interest in Pinnacle Gas Resources, Inc. (a private company), but we will not be operating in the oil and gas industry.

A return to low gas prices for Powder River Basin production may hurt our business. In 2004 and the first quarter of 2005, the CIG price (at which most Powder River Basin gas production is sold) was approximately 19% and 25% less than the national gas price. Although this negative price differential (due to continuing transmission line constraints in the Powder River Basin) has lessened compared to prior years (approximately 35% in 2003), these lower-than-national prices negatively impact our production revenues. There is no guarantee that increased pipeline capacity planned or under construction will eliminate the negative price differential or even significantly reduce it. A return to sustained low gas prices nationwide, which would be amplified by the negative price differential in Wyoming, would impair our ability to raise capital for RMG and reduce revenues from current and future production.

We have a history of losses from operations and limited capital. At December 31, 2004, we had a working capital deficit of \$(636,500) and an accumulated deficit of \$49,321,700. Our current level of operations, including general and administrative overhead, mineral operations (holding costs and a limited amount of exploration and development for non-CBM properties), and costs to comply with lease and permitting obligations for the coalbed properties, are estimated to cost approximately \$3,000,000 for 2005. If RMG is acquired by Enterra, our working capital would be increased sufficiently to cover general and administrative overhead and property holding costs well into 2006. We also received approximately \$3,700,000 in available cash from sale of convertible debentures and warrants in first quarter 2005, which, added to working capital at December 31, 2004, would sustain operations well into 2006 even if the Enterra transaction is not consummated. However, regardless of whether the Enterra transaction is consummated, any significant expansion of exploration and development work on RMG's properties and/or the resumption of substantive activities on the gold, uranium and molybdenum properties we hold, will require substantially more capital than presently available.

Consistent with our business strategy, we will seek to raise capital in the subsidiary companies or enlist joint venture industry partners for exploration and development of mineral properties. However, no financing arrangements presently are in place for these purposes and we have not signed joint venture agreements with any industry partners.

We are subject to certain kinds of risk which are unique to the minerals business. The exploration for and production of minerals is highly speculative and involves risks different from and in some instances greater than risks encountered by companies in other industries. Many exploration programs do not result in the discovery of mineralization and any mineralization discovered may not be of sufficient quantity or quality. Also, the mere discovery of promising mineralization may not warrant production, because the minerals (including methane gas) may be difficult or impossible to extract (produce) on a profitable basis.

Profitability of any mining and production we may conduct will involve a number of factors, including, but not limited to: The ability to obtain all required permits; costs of bringing the property into production; the construction of adequate production facilities; the availability and costs of financing; keeping ongoing costs of production at economic levels, and market prices for the metals or hydrocarbons to be produced staying above production costs. Our properties, or properties we might acquire in the future, may not contain deposits of minerals or coalbed methane gas that will be profitable to produce.

In addition, all forms of mineral (and oil and gas and coalbed methane) exploration and production require permits to have been issued by various federal and state agencies. See below.

Delays in obtaining permits for methane wells could impair our business. Drilling and producing coalbed methane wells requires obtaining permits from various governmental agencies. The ease of obtaining the necessary permits depends on the type of mineral ownership and the state in which the property is located. Intermittent delays in the permitting process can reasonably be expected throughout the development of any property. We may shift our exploration and development strategy as needed to accommodate the permitting process. As with all governmental permit processes, permits may not be issued in a timely fashion or in a form consistent with our plan of operations.

The Company's poison pill could discourage some advantageous transactions. We have adopted a shareholder rights plan, also known as a poison pill (see "Description of Securities"). The plan is designed to discourage a takeover of the company at an unfair low price. However, it is possible that the board of directors and the takeover acquiror would not agree on a higher price, in which case the takeover might be abandoned, even though the takeover price was at a significant premium to market prices. Therefore, as a result of the mere existence of the plan, shareholders would not receive the premium price.

Compliance with environmental regulations may be costly. Our business (mostly coalbed methane, but now expanding into uranium, gold and possibly molybdenum) is intensely regulated by government agencies. Permits are required to drill and pump methane wells, explore for minerals, operate mines, build and operate processing plants, and handle and store waste. The regulations under which permits are issued change from time to time to reflect changes in public policy or scientific understanding of issues. If the economics of a project would not justify the changes, we might have to abandon the project.

The company must comply with numerous environmental regulations on a continuous basis, to comply with the United States Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act ("RCRA"), and the Comprehensive Environmental Response Compensation Liability Act ("CERCLA"). For example, water and dust discharged from mines and tailings from prior mining or milling operations must be monitored and contained and reports filed with federal, state and county regulatory authorities. Additional monitoring and reporting is required by the United States Nuclear Regulatory Commission for uranium mills even if not currently operating (like the company's uranium mill at Ticaboo, Utah). The Abandoned Mine Reclamation Act in Wyoming and similar laws in other states where we have properties impose reclamation obligations on abandoned mining properties, in addition to or in conjunction with federal statutes.

Failure to comply with these regulations could result in substantial fines and environmental remediation orders. For information on the company's bonding requirements to date, see note K to the audited financial statements in the Form 10-K for the seven months ended December 31, 2002.

Commodity price fluctuations may be difficult to manage and could cause losses. Gas, gold, uranium and molybdenum prices can be volatile. Sharp swings in market prices make budgeting and operations more difficult. Sustained lower prices can result in impairment of the financial value of the mineral property purchased as well as the facilities built to process the material (such as mills or gas compression stations). Hedging activities, if available for the commodity, can protect against price swings but may result in locking a company into a lower than market price over time.

Future equity transactions, including exercise of options or warrants, could result in dilution. From time to time, the company sells restricted stock and warrants, and convertible debt, to investors in private placements conducted by broker-dealers, or in negotiated transactions. Because the stock is restricted, the stock is sold at a greater discount to market prices compared to a public stock offering, and the exercise price of the warrants sometimes is at or even lower than market prices. These transactions cause dilution to existing shareholders. Also, from time to time, options are issued to employees and third parties, with exercise prices equal to market. Exercise of in-the-money options and warrants will result in dilution to existing shareholders; the amount of dilution will depend on the spread between market and exercise price, and the number of shares involved. The company will continue to grant options to employees with exercise prices equal to market price at the grant date, and in the future may sell restricted stock and warrants, all of which may result in dilution to existing shareholders.

For example, the selling shareholders who hold the debentures have the right to convert their debentures at a set price of \$2.43 per share, and all of the selling shareholders can exercise their warrants at \$3.63 per share, regardless of market price. Depending on market price at the time, these conversions and/or exercises could result in dilution to current shareholders.

Terms of subsequent financings may adversely impact your investment. We may have to raise equity, debt or preferred stock financing in the future. Your rights and the value of your investment in the common stock could be reduced. For example, if we issue secured debt, the creditors would have a claim to our assets that would be prior to the rights of stockholders until the debt is paid. Debt service would increase costs and negatively impact operating results. Preferred stock could be issued in series from time to time with such designations, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock could be more advantageous to those investors than to the holders of common stock. In addition, if we need to raise more equity capital from sale of common stock, institutional or other investors may negotiate terms at least and possibly more favorable than the terms of this offering. Shares of common stock which we sell could be sold into the market, which could adversely affect market price. See "Risk Factor Involving This Offering" below.

Risk Factor Involving This Offering

Registration for resale of additional shares may depress market prices. From time to time, we have funded operations by selling restricted securities of subsidiary companies for their operations, then later reacquired those securities by exchange for shares and warrants of USE. For example, in January 2002, we issued 1,423,460 restricted shares of common stock in exchange for restricted shares of Rocky Mountain Gas, Inc. and in conversion of preferred stock of USE, for which the exchanging shareholders, and the holder of the preferred stock, originally had invested \$5,309,000. The shares of common stock of USE were issued based on the market price of \$3.92 per share on December 5, 2001, and the original investment amount for RMG and preferred stock, plus \$270,959 of interest owed three of the investors. Resale of these restricted securities, and a substantial number of additional restricted securities (including shares issuable on exercise of warrants and options) is covered by a registration statement on Form S-1, declared effective by the SEC on June 21, 2004 (SEC file number 333-115477).

From time to time, we may sell more restricted shares in subsidiary companies which are convertible to shares of the company, or sell restricted shares in the company (or derivatives, like debt convertible to shares in the company) to raise capital. Registration for resale of such additional shares of could adversely affect market prices for investors who buy shares in this offering.

Representations About This Offering

We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell nor does it seek an offer to buy the shares in any jurisdiction where this offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus (or any supplement), regardless of when it is delivered or when any shares are sold.

Forward Looking Statements

We make statements in this prospectus which are considered to be "forward looking" statements. All statements (other than statements of historical fact) about financial and business strategy and the performance objectives of management are forward_looking statements. These forward_looking statements are based on the beliefs of management, as well as assumptions made by and information currently available to them. These statements involve risks that are both known and unknown, including unexpected economic and market factors, failure to accurately forecast operating and capital expenditures and capital needs (due to rising costs and/or different drilling and production conditions in the field), changes in timing or conditions for getting regulatory approvals to explore mineral properties and put them into production, and other business factors. The use of the words "anticipate," "belie