

US ENERGY CORP  
Form 8-K  
June 07, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (date of earliest event reported): May 24, 2005 (May 20, 2005)

**U.S. ENERGY CORP.**

(Exact Name of Company as Specified in its Charter)

**Wyoming**

(State or other jurisdiction of  
incorporation or organization)

**0-6814**

(Commission File No.)

**83-0205516**

(I.R.S. Employer  
Identification No.)

**Glen L. Larsen Building**

**877 North 8<sup>th</sup> 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, Former Address or Former Fiscal Year,,  
If Changed From Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- Written communications pursuant to Rule 425 under the Securities Act
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act



## Section 1: Registrant's Business and Operations

### **Item 2.01. Completion of Disposition of Assets**

**General.** As of April 11, 2005, U.S. Energy Corp. ("USE"), its majority-owned subsidiary Crested Corp. ("Crested"), and their joint-majority-owned subsidiary Rocky Mountain Gas, Inc. ("RMG," a privately-held Wyoming corporation), entered into a binding agreement with Enterra Energy Trust ("Enterra") for the acquisition of RMG by Enterra in consideration of \$20,000,000, payable pro rata to the RMG shareholders in the amounts of \$6,000,000 in cash and \$14,000,000 in exchangeable shares of one of the subsidiary companies of Enterra. Enterra (Calgary, Alberta) is an open ended unincorporated investment trust; units of Enterra are traded on the Toronto Stock Exchange (the "TSX") and Nasdaq. The purchase price was subject to a minor adjustment of \$266,000 if certain overriding royalty interests were purchased.

On May 20, 2005, the agreement with Enterra was amended to provide for payment of the \$6,000,000 component with \$500,000 cash and \$5,500,000 with Enterra units, subject to the minor adjustment.

On June 1, 2005, the agreement, as amended, was closed: Enterra US Acquisitions Inc. (a privately-held Washington corporation organized by Enterra for purposes of the RMG acquisition, hereafter "Acquisitions") acquired all the outstanding stock of RMG, for which Enterra paid \$500,000 cash and issued \$5,234,000 of Enterra units (the "Enterra Initial Units"), net of the \$266,000 adjustment for the purchase of overriding royalty interests (effected May 1, 2005); and Acquisitions issued \$14,000,000 of class D shares of Acquisitions. The Enterra Initial Units and the class D shares were issued pro rata to the RMG shareholders, with certain adjustments (see below). USE's and Crested's participation in the consideration received was approximately \$17,841,700. USE's consolidated subsidiary, Yellowstone Fuels, Inc. ("YSFI") also received approximately \$296,700.

RMG was acquired with approximately \$3,500,000 of debt (at December 31, 2004) owed by its subsidiary (RMG I, LLC) to its mezzanine lenders, USE will no longer carry this debt on its consolidated balance sheet. As a result of the RMG disposition, USE and Crested no longer directly hold coalbed methane properties, although with their holdings in securities of Enterra (and Acquisitions), and Pinnacle Gas Resources, Inc. ("Pinnacle") (a private coalbed methane company in which USE and Crested hold an equity interest), both companies will continue with investments in the oil and gas sector.

The Enterra Initial Units presently are tradeable on the TSX. On June 1, 2006, the class D shares of Acquisitions (not traded anywhere) will be exchangeable, on a one-for-one basis, for additional Enterra units (the "Enterra Additional Units"); the Enterra Additional Units will be tradeable on the TSX at that time. For purposes of the Securities Act of 1933, the class D shares of Acquisitions and the Enterra Initial Units have been issued (and the Enterra Additional Units will be issued on June 1, 2006) as restricted securities under rule 144. The Enterra Initial Units will not be tradeable on Nasdaq until June 1, 2006, and the Enterra Additional Units will not be tradeable on Nasdaq until June 1, 2007, in both instances subject to compliance with rule 144. Proceeds from liquidation over time of the Enterra Initial Units and the to-be-received Enterra Additional Units will fund exploration and development work on other mineral properties held by USE and Crested, and to retire USE debt (see "Restructuring of USE Debt" below).

RMG's minority equity ownership of Pinnacle was not included in the disposition of RMG, but was assigned to USE and Crested in proportion to their ownership of RMG. Enterra is entitled to be paid by USE an amount of up to (but not more than) \$2,000,000, if proceeds from a future disposition by USE and Crested to a third party of the minority equity interest in Pinnacle exceed \$10,000,000. Currently, we have no information about whether or when Pinnacle might become a public company or might be purchased by third parties. The value of the minority equity position upon a future disposition could be more or less than \$10,000,000. The boards of directors of USE and Crested determined that the value of RMG's minority equity interest in Pinnacle is approximately \$6,250,000; based upon Pinnacle's recent sales of equity to its shareholders (RMG did not participate in those sales). To compensate the minority shareholders of RMG (including officers, directors and employees of USE and Crested, Mark J. Larsen (former president and a former director of RMG), Yellowstone Fuels, Inc. ( YSFI ) and Tom Swank (a former director of RMG) for their pro rata beneficially-owned 5.9% (\$370,916) of the \$6,250,000 value of the minority Pinnacle interest transferred to USE and Crested, restricted shares of common stock of USE will be issued to the former minority shareholders of RMG, pro rata for their May 31, 2005 percentage beneficial ownership in Pinnacle (through their former ownership in RMG). These USE shares will be valued at the Nasdaq Official Close Price at a date to be selected, anticipated being in the third quarter of 2005.

For information on the participation in the Enterra agreement consideration of certain of the officers and directors of USE and Crested, and two of the (former) officers and directors of RMG, please see the "Certain Relationships and Related Transactions" disclosures in the proxy statements filed by USE and Crested.

Participation in the Disposition by USE and Crested On May 10, 2005, RMG issued 3,893,584 shares of common stock to USE and 502,130 shares of common stock to Crested, in consideration of the cancellation by USE and Crested of approximately \$6,268,700 and \$808,400 owed to USE and Crested, for USE issuing USE stock on conversion of RMG common and preferred stock purchased by third party investors, payment of RMG's general and administrative overhead, and RMG's operating deficits. As a result of this transaction, prior to closing of the Enterra agreement, RMG had issued and outstanding 16,851,453 shares of common stock, of which USE owned 10,228,527 shares (60.7%), Crested owned 5,620,464 shares (33.4%), and Yellowstone Fuels Corp. (an affiliate of USE) owned 250,000 shares (1.5%). Individuals owned 4.4% of RMG (including 2.5% which was owned by certain of the officers and directors of USE, Crested, and RMG). The holders of all these RMG shares received their pro rata share of the Enterra Initial Units and the class D shares of Acquisitions, with the following exceptions:

- USE's and Crested's portions of Enterra Initial Units was reduced by 16,983 and 9,331 Enterra Initial Units (for their portions of the \$500,000 cash component); and by another 9,035 and 4,965 Enterra Initial Units (for their portions of \$266,000 of the total amount paid to buy out and cancel overriding royalty interests held by mezzanine lenders on certain gas properties owned by RMG, which buy out was required by the agreement with Enterra). USE issued to the mezzanine lenders warrants to purchase a total of 50,000 shares of common stock of USE; the exercise price will be valued at the Nasdaq Official Close Price at a date to be selected, anticipated to be in the third quarter of 2005.
- USE's portion of the class D shares of Acquisitions was reduced by 10,664 class D shares which were issued to a secured lender of USE (see "Restructuring of USE Debt" below).

Restructuring of USE Debt. On June 1, 2005, USE and Geddes and Company ("Geddes") agreed to restructure a \$3,000,000 secured debt; extinguish Geddes' right to convert the debt to RMG shares, retire outstanding RMG warrants and issue USE shares (and transfer class D shares of Acquisitions) to Geddes.

Pursuant to the agreement, USE agreed to pay Geddes \$500,000 cash and the \$2,500,000 balance is payable in ten monthly installments of \$250,000 (plus interest) beginning July 1, 2005. USE also transferred to Geddes 10,664 of the class D shares of Acquisitions (valued at \$225,000 or \$21.10 per class D share) which USE would have received on closing of the Enterra agreement, and USE agreed to issue \$225,000 in restricted shares of USE common stock (at market prices on a date to be selected, anticipated to be in the third quarter of 2005). As of June 1, 2005, Geddes' option to convert the debt to RMG shares and all RMG warrants were extinguished, which was required under the Enterra agreement. The debt is secured with 157,895 of the Enterra Initial Units out of USE's portion thereof (to be released back to USE in tranches as installments are paid), and with the other original collateral securing Geddes' loan which is unrelated to RMG. Some of the original collateral for Geddes' loan (USE's shares of RMG, and certain of RMG's coalbed methane leases) were released; other collateral remains in place.

#### Section 9: Financial Statements and Exhibits

##### Item 9.01. Financial Statements and Exhibits

- (a) Financial statements of businesses acquired. Not applicable.
- (b) Pro forma financial information.

**U.S. ENERGY CORP. AND SUBSIDIARIES**  
**PRO FORMA COMBINED CONDENSED CONSOLIDATED BALANCE SHEET**  
**MARCH 31, 2005**  
**(Unaudited)**

	<b>ASSETS</b>				Post Disposition of RMG
	U.S. Energy Historical	Disposition Adjustments for Rocky Mtn Gas	(1)	Adjustments	
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 7,996,600	\$ 770,200		\$ --	\$ 7,226,400
Other current assets	1,435,300	878,300		--	557,000
Total current assets	9,431,900	1,648,500		--	7,783,400
<b>INVESTMENTS:</b>	7,809,200	22,600		18,138,400 (2)	25,925,000
<b>PROPERTIES AND EQUIPMENT:</b>					
Land, Buildings, Machinery and Oil Properties	13,394,900	275,400		--	13,119,500
Proved gas properties, full cost method	3,817,100	3,817,100		--	--
Unproved coal bed methane properties excluded from amortization	5,307,800	5,307,800		--	--
Total properties and equipment	22,519,800	9,400,300		--	13,119,500
Less accumulated depreciation, depletion and amortization	(8,674,500)	(1,329,000)		--	(7,345,500)
Net properties and equipment	13,845,300	8,071,300		--	5,774,000
<b>OTHER ASSETS:</b>	3,970,200	127,700		--	3,842,500
Total assets	\$ 35,056,600	\$ 9,870,100		\$ 18,138,400	\$ 43,324,900

The accompanying notes are an integral part of these statements.

**U.S. ENERGY CORP. AND SUBSIDIARIES**  
**PRO FORMA COMBINED CONDENSED CONSOLIDATED BALANCE SHEET**  
**MARCH 31, 2005**  
**(Unaudited)**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	U.S. Energy Historical	Disposition Adjustments For Rocky Mtn. Gas	(1)	Adjustments	Post Disposition of RMG
<b>CURRENT</b>					
<b>LIABILITIES:</b>					
Accounts payable and other current liabilities	\$ 3,073,000	\$ 2,060,200		\$ 250,800 (3)	\$ 1,263,600
Current portion of long-term debt	3,332,400	3,261,900		--	70,500
Total current liabilities	6,405,400	5,322,100		250,800	1,334,100
<b>LONG-TERM DEBT</b>	6,748,300		--	--	6,748,300
<b>ASSET</b>					
<b>RETIREMENT</b>					
<b>OBLIGATIONS</b>	7,986,800	476,500		--	7,510,300
<b>OTHER LIABILITIES</b>	3,642,500	(697,800)		--	4,340,300
<b>COMMITMENTS</b>					
<b>AND</b>					
<b>CONTINGENCIES</b>					