

US ENERGY CORP
Form PRE 14A
April 26, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549**

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934**

Filed by the Registrant Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

U.S. Energy Corp.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(I)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies:
2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- 4) Proposed maximum aggregate value of transaction:
5) Total fee paid:
-

U.S. ENERGY CORP.
Minerals Plaza, Glen L. Larsen Building
877 North 8th West
Riverton, Wyoming 82501

Notice of Annual Meeting of Shareholders

We are pleased to give you notice of our Annual Meeting of Shareholders:

Date: Friday, June 23, 2006

Time: 10:00 AM MDT

Place: 877 North 8th West, Riverton, Wyoming 82501

Purpose: -Elect two directors to serve until the third succeeding annual meeting of shareholders, and until their successors have been duly elected or appointed and qualified;

- Approve the future issuance of shares of common stock to Cornell Capital Partners, LP. to comply with Nasdaq Marketplace Rule 4350(i)(1)(D);
- Amend the articles of incorporation to provide that directors may only be removed by vote of the shareholders for cause;
- Ratify appointment of the independent auditor; and
- Transact any other business that may properly come before the meeting.

Record Date: April 25, 2006. The stock transfer books will not be closed.

Your vote is important. Whether or not you plan to attend the meeting, please complete, sign and date the enclosed proxy card and return it promptly in the enclosed envelope. We appreciate your cooperation.

By Order of the Board of Directors

Dated: May 12, 2006

Daniel P. Svilar, Secretary

Information About Attending the Annual Meeting

Only shareholders of record on April 25, 2006 may vote at the meeting. Only shareholders of record, and beneficial owners on the record date, may attend the meeting. If you plan to attend the meeting, please bring personal identification and proof of ownership if your shares are held in "street name" (i.e., your shares are held of record by brokers, banks or other institutions). Proof of ownership means a letter or statement from your broker showing your ownership of shares on the record date.

A list of shareholders entitled to vote at the meeting will be available for inspection by any record shareholder at the Company's principal executive offices in Riverton, Wyoming. The inspection period begins two days after the date this Notice is mailed and ends at the conclusion of the meeting.

U.S. ENERGY CORP.

**Minerals Plaza, Glen L. Larsen Building
877 North 8th West
Riverton, Wyoming 82501**

**PRELIMINARY
PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS
ON FRIDAY, JUNE 23, 2006**

The Annual Report to Shareholders for the fiscal year ended December 31, 2005 is mailed to shareholders together with these proxy materials on or about May 12, 2006. The proxy materials consist of this proxy statement and notice of annual meeting, the Annual Report, the Audit Committee Certification, and the Audit Committee Charter.

This proxy statement is provided in connection with a solicitation of proxies by the board of directors of U.S. Energy Corp. for the annual meeting of shareholders (the "meeting") to be held on Friday, June 23, 2006 and at any adjournments of the meeting.

Who Can Vote

If you held any shares of common stock on the record date (April 25, 2006), then you will be entitled to vote at the meeting. If you held stock in your own name, you may vote directly. If you own stock beneficially but in the record name (street name) of an institution, you may instruct the record holder how to vote when the record holder contacts you about voting and gives you the proxy materials.

Common Stock Outstanding on the Record Date: 19,603,961 Shares

Quorum and Voting Rights

A quorum for the meeting will exist if a majority of the voting power of the shareholders is present at the meeting, in person or represented by properly executed proxy delivered to us prior to the meeting. Shares of common stock present at the meeting that abstain from voting, or that are the subject of broker non-votes, will be counted as present for determining a quorum. A broker non-vote occurs when a nominee holding stock in street name or otherwise for a beneficial owner does not vote on a particular matter because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

You are entitled to one vote for each share of U.S. Energy Corp. common stock you hold, except that in the election of directors you may cumulate your votes. Cumulative voting generally allows each holder of shares of common stock to multiply the number of shares owned by the number of directors being elected, and to distribute the resulting number of votes among nominees in any proportion that the holder chooses. Nominees in number equal to the seats to be filled, who receive a plurality of votes cast, are elected. If you abstain from voting, your shares will not be counted for or against any director.

Except for Proposal 2, any other matter which properly comes before the meeting would be approved if the number of votes cast in favor exceed the number of votes opposed, unless Wyoming law requires a different approval ratio. Proposal 2 requires the approval of the holders of a majority of the outstanding shares (excluding shares held by subsidiaries of the company).

Abstentions and broker non-votes will have no effect on the election of directors. Abstentions as to all other matters which properly may come before the meeting will be counted as votes against those matters. Broker non-votes as to all other matters will not be counted as votes for or against, and will not be included in calculating the number of votes necessary for approval of these matters.

How Your Proxy Will Be Voted; Recommendation of the Board

The board of directors is soliciting a proxy in the enclosed form to provide you with the opportunity to vote on all matters scheduled to come before the meeting, whether or not you attend in person.

The board of directors recommends you vote in favor of the nominees for directors, in favor of approving the issuance of shares to Cornell Capital Partners, LP, in favor of amending the articles of incorporation to provide that directors may only be removed by vote of the shareholders for cause, and in favor of ratifying management's re-appointment of the audit firm.

Granting Your Proxy

If you sign properly and return the enclosed form of proxy, your shares will be voted as you specify. If you make no specifications, your proxy will be voted in favor of all proposals.

We expect no matters to be presented for action at the meeting other than the items described in this proxy statement. However, as permitted by SEC rule 14a-4(c), the enclosed proxy will confer discretionary authority with respect to any other matter that may properly come before the meeting, including any matter of which we did not have notice at least 45 days before the date of mailing proxy materials for last year's meeting. The persons named as proxies intend to vote in accordance with their judgment on any matters that may properly come before the meeting.

Revoking Your Proxy

If you submit a proxy, you may revoke it later or submit a revised proxy at any time before it is voted. You also may attend the meeting in person and vote by ballot, which would cancel any proxy you previously submitted.

Proxy Solicitation

We will pay all expenses of soliciting proxies for the meeting. In addition to solicitations by mail, arrangements have been made for brokers and nominees to send proxy materials to their principals, and we will reimburse them for their reasonable expenses. We have not hired a solicitation firm for the meeting. Our employees and directors will solicit proxies by telephone or other means, if necessary; these people will not be paid for these services.

Requirement and Deadlines for Shareholders to Submit Proxy Proposals

Generally, we hold the annual meeting on a Friday in June. Under the rules of the SEC, if a shareholder wants us to include a proposal in our proxy statement and form of proxy for presentation at our Annual Meeting of Shareholders to be held in June 2007, the proposal must be received by us in writing at least 150 calendar days in advance of the meeting date, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501; Attention: Daniel P. Svilar, Secretary.

Corporate Governance, Audit Committee, Compensation Committee and Nominating Committee

Meetings of the Board. The board of directors, which held twelve formal meetings in 2005, has primary responsibility for directing management of the business. The board currently consists of seven members. All members attended all meetings, except Michael T. Anderson and John L. Larsen, who each missed three meetings and Russell Fraser who missed one meeting. The board conferred informally on several other occasions during the year. From time to time the directors also approve various matters by consent minutes without conducting formal meetings; there were three of these proceedings in 2005.

Attendance by Directors at Annual Meetings. Although most of the directors attend annual meetings of shareholders, we do not require such attendance. All of the directors attended the 2005 annual meeting of shareholders either in person or on the telephone, and the regular meeting of the board of directors following the 2005 annual meeting of shareholders.

Communications from Security Holders to the Board of Directors. Security holders may send communications to the board of directors, by addressing their communications to Keith G. Larsen, Chief Executive Officer and Chairman of the board of directors, or Mark J. Larsen, President, at 877 N. 8th W., Riverton, Wyoming 82501. The independent directors have established a process for collecting and organizing communications from security holders. Pursuant to this process, Keith and Mark Larsen will determine which of the communications address matters of substance and which should be considered by all directors, and will send those communications to all the directors for their consideration.

Audit Committee. To provide effective direction and review of fiscal matters, the board has established an audit committee. The audit committee has the responsibility of reviewing our financial statements, exercising general oversight of the integrity and reliability of our accounting and financial reporting practices, and monitoring the effectiveness of our internal control systems. The audit committee also recommends selection of an auditing firm and exercises general oversight of the activities of our independent auditors, principal financial and accounting officers and employees and related matters. The members of the audit committee are Don C. Anderson, H. Russell Fraser, Michael T. Anderson, and Michael H. Feinstein, all of whom are independent directors under criteria established by rule 4200(a)(15) adopted by the National Association of Securities Dealers, Inc. ("NASD").

The board of directors has determined that Michael T. Anderson and Michael Feinstein both are audit committee financial experts as defined in rule 401(h) of the SEC's regulation S-K.

The audit committee has reviewed our financial statements for the twelve months ended December 31, 2005 and discussed them with management. The committee also discussed with the independent audit firm the various matters required to be so discussed in SAS 63 (Codification of Statements on Auditing Standards, AU 380). Based on the foregoing, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the twelve months ended December 31, 2005, which has been filed with the Securities and Exchange Commission.

The audit committee has adopted a written charter, a copy of which is included with these proxy materials. A copy will be next included with proxy materials for the 2009 Annual Meeting).

Compensation Committee. The Company has a compensation committee, whose members are Don C. Anderson, H. Russell Fraser, Michael T. Anderson, and Michael H. Feinstein, who are independent under criteria established by the NASD. This committee met formally on three occasions in 2005, and discussed compensation matters informally several times throughout the fiscal year.

The compensation committee reviews and recommends to the board of directors compensation packages for the officers of U.S. Energy Corp. and subsidiaries (but not Crested Corp. which has its own compensation committee). The committee takes into account the need for different types of executives (administrative, financial, engineering, etc.), and the pay arrangements which corporations of similar size have adopted in our industry on both the national and local levels. Items considered include the experience of and contribution made (or to be made for new hires or promotions) by each person, and the methods of paying them (principally salary and stock options). In addition, the compensation committee reviews and recommends to the board of directors the granting of stock options to non-executive employees, and the award of bonuses to directors, officers, and non-executive employees.

Compensation packages and bonuses for the executive officers are approved by vote of the independent directors.

Executive Committee. The executive committee members are John L. Larsen (Chairman), Keith G. Larsen, Harold F. Herron and H. Russell Fraser. This committee helps implement the board of directors' overall directives as necessary. This committee usually does not conduct formal meetings (one was held in 2005).

Nominating Committee and Nominating Process. When needed as determined by the board of directors, the nominating committee considers and recommends to the board of directors individuals who may be suitable to be nominated to serve as directors. Don C. Anderson, H. Russell Fraser, Michael T. Anderson, and Michael H. Feinstein are the nominating committee members; they are independent under criteria established by the NASD.

The nominating committee has adopted a written charter regarding the Company's director nomination process, a copy of which was included in the proxy statement for the June 2004 Annual Meeting (a copy will be next included with proxy materials for the 2007 Annual Meeting). This charter is not available on the Company's website, but copies are available on request (without charge) addressed to Daniel P. Svilar, Secretary, U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501.

Pursuant to its charter, the nominating committee has adopted a policy for consideration of any director candidates recommended by security holders, and may (or may not) recommend to the board of directors that candidate(s) be put on an Annual Meeting election slate and identified in the Company's proxy statement, if:

- At least 150 calendar days before the meeting date, the security holder requests in writing that the nominating committee consider an individual for inclusion as a director nominee in the next proxy statement for an Annual Meeting. The security holder must identify the individual and provide background information about the individual sufficient for the committee to evaluate the suggested nominee's credentials. Such requests should be addressed to Keith G. Larsen, Chief Executive Officer and Chairman of the board of directors, or Mark J. Larsen, President, who will forward the requests to the nominating committee.
- The candidate meets certain specific minimum qualifications: Substantial experience in top or mid-level management (or serving as a director) of public mineral exploration companies, with particular emphasis on understanding and evaluating mineral properties for either financing, exploration and development, or joint venturing with industry partners; contacts with mining or oil and gas industry companies to develop strategic partnerships or investments with the Company; and the ability to understand and analyze complex financial statements. A security holder-recommended candidate also will have to possess a good business and personal background, which the nominating committee will independently verify. These same categories of qualifications will be used by the nominating committee in considering any nominee candidate, whether recommended by a security holder, an officer, or another director.

- Although all security holder-recommended candidates, and all candidates recommended by another director or by an officer, will be evaluated by the nominating committee in good faith, the full board of directors, by majority vote, will make the final decision whether to include an individual on an Annual Meeting election slate and identified in the proxy statement for that Annual Meeting.
- For the 2006 Annual Meeting, or for the following Annual Meeting, the nominating committee has not received a request from any security holder for consideration of a nominee candidate.

Both of the director nominees for election at the 2006 Annual Meeting are incumbent directors standing for re-election.

Management Cost Apportionment Committee, established by USE and Crested in 1982, reviews the apportionment of costs between USE and Crested. Keith G. Larsen and Robert Scott Lorimer are members of this committee.

Principal Holders of Voting Securities of the Company And Ownership by Officers and Directors

The following is a list of all record holders who, as of the April 25, 2006 record date for this Annual Meeting, beneficially owned more than five percent (5%) of the outstanding shares of common stock, and the outstanding common stock beneficially held by each director and nominee, and each officer, and by all officers and directors as a group, as reported in filings with the SEC, or as otherwise known to us. Beneficial ownership includes the shares underlying presently exercisable options.

Except as otherwise noted, each holder exercises the sole voting and dispositive powers over the shares listed opposite the holder's name, excluding shares subject to forfeiture and those held in ESOP accounts established for the employee's benefit. Dispositive powers over the forfeitable shares held by employees who are not officers, and by non-employee directors ("Forfeitable Shares") are shared by the Company's board of directors. Voting and dispositive powers over Forfeitable Shares held by the Company's five executive officers ("Officers' Forfeitable Shares") are shared by the Company's non-employee directors (Messrs. Anderson, Feinstein, Anderson, and Fraser). The ESOP Trustees (John L. Larsen and Harold F. Herron) exercise voting powers over non-allocated ESOP shares and dispositive powers over all ESOP shares. It should be noted that voting and dispositive powers over certain shares are shared by one or more of the listed holders. Such securities are reported opposite each holder having a shared interest therein.

Edgar Filing: US ENERGY CORP - Form PRE 14A

Name and address Of beneficial owner	Amount and Nature of Beneficial Ownership				Total	
	Voting Rights		Dispositive Rights		Beneficial Ownership	Percent of Class ⁽¹⁾
	Sole	Shared	Sole	Shared		
John L. Larsen *(2) 201 Hill Street Riverton, WY 82501	1,229,741	968,726	1,229,741	1,281,504	2,633,765	13.0%
Keith G. Larsen *(3) 4045 Valley Green Cir. Riverton, WY 82501	861,217	820,415	805,594	835,595	1,682,952	8.3%
Harold F. Herron *(4) 877 N. 8th W. Riverton, WY 82501	488,225	973,226	457,919	1,281,504	1,786,499	9.0%
Don C. Anderson *(5) P. O. Box 680 Midway, UT 84049	168,349	420,720	168,349	443,400	611,749	3.1%
Michael H. Feinstein *(6) 5309 East Paradise Lane Scottsdale, AZ 85254	25,476	420,720	25,476	443,400	468,876	2.4%
H. Russell Fraser *(7) 3453 Southfork Road Cody, WY 82414	147,231	422,020	147,231	444,700	591,931	3.0%
Michael T. Anderson *(8) 933 Main Street	77,405	420,720	77,405	443,400	520,805	2.7%

Edgar Filing: US ENERGY CORP - Form PRE 14A

Lander, WY 82520						
Daniel P. Svilar **(9)	738,480	818,915	738,480	817,915	1,669,075	8.3%
580 S. Indiana Street Hudson, WY 82515						
R. Scott Lorimer **(10)	666,746	812,915	602,999	812,915	1,554,781	7.8%
11 Korrel Court Riverton, WY 82501						
Mark J. Larsen **(11)	572,250	4,600	530,208	-0-	572,250	2.9%
513 Westchester Cir. Riverton, WY 82501						
All officers and directors as A group (ten persons) ⁽¹²⁾	4,975,120	1,413,346	4,783,402	1,708,524	6,683,644	28.8%

* Director

** Officer only

- (1) Percent of class is computed by dividing the number of shares beneficially owned plus any options held by the reporting person, by the number of shares outstanding plus the shares underlying options held by that person.
- (2) Mr. John L. Larsen exercises sole voting powers over 443,423 shares contributed to a family limited partnership, 500 shares held in a street name account for his benefit, 66,918 shares held in an Individual Retirement Account ("IRA") established for his benefit, and 718,900 shares underlying options. He exercises shared voting rights over 155,811 shares held by the ESOP, which have not been allocated to accounts established for specific beneficiaries, and shares held by corporations of which Mr. Larsen is a director consisting of 512,359 shares held by Crested Corp. ("Crested"), 125,556 shares held by Plateau Resources Limited ("Plateau"), and 175,000 shares held by Sutter Gold Mining Inc. ("SGMI"). Mr. Larsen shares the voting rights over such shares with the other directors of those corporations. Mr. Larsen shares voting powers over the unallocated ESOP shares in his capacity as an ESOP Trustee with the other ESOP Trustees. Shares over which sole dispositive rights are exercised consist of 443,423 directly owned shares, 500 shares held in street name, 66,918 shares held in his IRA, and the 718,900 shares underlying options. Shared dispositive powers are exercised over 445,909 shares held by the ESOP, 22,680 Forfeitable Shares, 512,359 shares held by Crested, 125,556 shares held by Plateau and 175,000 shares held by SGMI. The shares listed under "Total Beneficial Ownership" also include 145,200 Officers' Forfeitable Shares.
- (3) Mr. Keith Larsen exercises sole voting rights over 140,736 directly held shares, 7,500 shares as custodian over shares held for his minor children under the Wyoming Uniform Transfers to Minors Act (the "Custodial Shares"), 55,623 shares held in an ESOP account established for his benefit, 657,358 shares underlying options. He exercises shared voting rights over 7,500 shares held directly by his minor children and shares held by corporations of which Mr. Larsen is a director consisting of 512,359 shares held by Crested, 125,556 shares held by Plateau, and 175,000 shares held by Sutter. Mr. Larsen shares the voting rights over such shares with the other directors of those corporations. Mr. Keith Larsen exercises sole dispositive rights over 140,736 directly held shares, 7,500 Custodial shares, and 657,358 shares underlying options. He exercises shared dispositive rights over 22,680 Forfeitable Shares 512,359 shares held by Crested, 125,556 shares held by Plateau and 175,000 shares held by SGMI. The shares listed under "Total Beneficial Ownership" also include 8,820 Officers' Forfeitable Shares.
- (4) Mr. Herron exercises sole voting powers over 93,415 directly owned shares, 11,000 shares held in an IRA established for his benefit, 4,500 Custodial Shares 349,004 shares underlying options, and 30,306 shares held in the ESOP account established for his benefit. Shared voting powers are exercised over 4,500 Custodial shares, 155,811 shares held by the ESOP which have not been allocated to accounts established for specific beneficiaries, 512,359 shares held by Crested, 125,556 shares held by Plateau, and 175,000 shares held by Sutter. Sole dispositive powers are exercised over 93,415 directly held shares, 11,000 shares held in his IRA, 4,500 Custodial Shares and 349,004 shares underlying options. Mr. Herron exercises shared dispositive rights over 445,909 shares held by the ESOP, 512,359 shares held by Crested, 125,556 shares held by Plateau and 175,000 shares held by SGMI, and 22,680 Forfeitable Shares. Mr. Herron exercises shared dispositive and voting powers over the shares held by Crested, Sutter and Plateau as a director of those companies with the other directors of those companies and over the ESOP shares in his capacity as an ESOP Trustee with the other ESOP Trustees. The shares listed under "Total Beneficial Ownership" also include 39,450 Officers' Forfeitable Shares.
- (5) Mr. Don Anderson exercises sole voting powers over 37,794 directly held shares, 3,055 shares held in an IRA established for his benefit, and 127,500 shares underlying options. He exercises shared voting powers over 420,720 Officers' Forfeitable Shares. Mr. Anderson exercises dispositive power over 37,794 directly held shares, 3,055 IRA shares, and 127,500 shares underlying his options. He exercises shared dispositive powers over the 22,680 Forfeitable Shares and 420,720 Officers' Forfeitable Shares.

(6) Mr. Feinstein exercises sole voting rights over 476 directly held shares and 25,000 shares underlying options. He exercises shared voting powers over 420,720 Officers' Forfeitable Shares. Mr. Feinstein exercises sole dispositive rights over 476 directly held shares and 25,000 shares underlying options. He exercises shared dispositive powers over the 22,680 Forfeitable Shares and 420,720 Officers' Forfeitable Shares.

(7) Mr. Fraser exercises sole voting rights over 14,731 directly held shares, 4,000 shares held in an IRA for his benefit, 1,000 shares held in a street name account for his benefit and 127,500 shares underlying options. He exercises shared voting rights over 1,300 shares held directly by his wife and 420,720 Officers' Forfeitable Shares. Mr. Fraser exercises sole dispositive rights over 14,731 directly held shares, 4,000 IRA shares, 1,000 held in a street name account for his benefit and 127,500 shares underlying his options. He exercises shared dispositive powers over 1,300 wife's shares, 22,680 Forfeitable Shares, and 420,720 Officers' Forfeitable Shares.

(8) Mr. Mike Anderson exercises sole voting rights over 2,405 directly owned shares and 75,000 shares underlying his options. He exercises shared voting powers over 420,720 Officers' Forfeitable Shares. He exercises sole dispositive rights over 2,405 directly owned shares and 75,000 shares underlying his options. He exercises shared dispositive powers over the 22,680 Forfeitable Shares and 420,720 Officers' Forfeitable Shares.

(9) Mr. Svilar exercises sole voting powers over 101,950 directly owned shares, 16,000 shares held in an IRA established for his benefit, 630 shares held in a street name account established for his benefit, 1,000 Custodial Shares, and 618,900 shares underlying options. He exercises shared voting over 512,359 shares held by Crested 125,556 shares held by Plateau, and 175,000 shares held by SGMI, 1,000 Custodial shares and 5,000 shares held by a private corporation of which he is a director and officer. He exercises sole dispositive power over 101,950 directly held shares, 16,000 IRA shares, 630 street name shares, 1,000 Custodial Shares, and 618,900 shares underlying his options. Mr. Svilar exercises shared dispositive rights over 512,359 shares held by Crested, 125,556 shares held by Plateau, 175,000 shares held by SGMI, and 5,000 shares held by a private corporation of which he is a director and officer. The shares listed under "Total Beneficial Ownership" also include 112,680 Officers' Forfeitable Shares.

(10) Mr. Lorimer exercises sole voting rights over 145,642 directly held shares, 63,747 shares held in the ESOP account established for his benefit, and 457,357 shares underlying options. He exercises shared voting over 512,359 shares held by Crested, 125,556 shares held by Plateau, and 175,000 shares held by SGMI. He exercises sole dispositive rights over 145,642 directly held shares, and 457,357 shares underlying options. Mr. Lorimer exercises shared dispositive rights over 512,359 shares held by Crested, 125,556 shares held by Plateau and 175,000 shares held by SGMI. The shares listed under "Total Beneficial Ownership" also include 75,120 Officers' Forfeitable Shares.

(11) Mr. Mark Larsen exercises sole voting over 34,578 shares held directly, 4,600 Custodial Shares, 42,042 shares held in the ESOP account established for his benefit, and 491,030 shares underlying options. He exercises shared voting rights over 4,600 Custodial shares. Mr. Larsen exercises sole dispositive rights over 34,578 shares held directly, 4,600 Custodial shares, and 491,030 shares underlying his options.

(12) The group exercises sole voting rights over 1,015,150 directly held shares, 1,000 shares held in joint tenancy, 100,973 shares held in IRAs, 1,130 shares held in street name, 17,600 Custodial Shares, 191,718 ESOP shares and 3,647,549 shares underlying options. Shared voting rights are exercised over 1,300 shares held in IRA accounts for spouses, 17,600 shares held by minor children, 420,720 Officers' Forfeitable Shares, 155,811 shares held in the ESOP which are not allocated to plan participants, 512,359 shares held by Crested, 125,556 shares held by Plateau, 175,000 shares held by SGMI, and 5,000 shares held by private corporations.

The sole dispositive shares consist of 1,015,150 directly held shares, 1,000 shares held in joint tenancy, 100,973 shares held in IRAs, 1,130 shares held in street name, 17,600 Custodial Shares, and 3,647,549 shares underlying options. The group exercises shared dispositive rights over 1,300 shares held in IRA accounts for spouses, 445,909 shares held in the ESOP, 512,359 shares held by Crested, 125,556 shares held by Plateau, 175,000 shares held by SGMI, 5,000 shares held by private corporations, 22,680 Forfeitable Shares, and 420,720 Officers' Forfeitable Shares.

Proposal One - Election of Directors

The directors are divided into three classes, each consisting of two persons so far as practicable, to be elected until the third succeeding annual meeting and until their successors have been duly elected or appointed and qualified or until death, resignation or removal. The terms of directors Keith G. Larsen and John L. Larsen expire at the June 2006 meeting and they have been nominated for re-election. Current directors are:

Name, age and designation	Other positions with the company	Director Since	Meeting at which term will expire
John L. Larsen (75)	Senior Vice President and Chairman Emeritus	1966	2006 Annual Meeting
Keith G. Larsen (47)	CEO and Chairman	1997	2006 Annual Meeting
Harold F. Herron (53) (continuing director)	Senior Vice President	1989	2007 Annual Meeting
Don C. Anderson (78) (nominee)		1990	2008 Annual Meeting
Michael H. Feinstein (70) (nominee)		2004	2008 Annual Meeting
H. Russell Fraser (64) (nominee)		1996	2008 Annual Meeting
Mike Anderson (54) (continuing director)		2003	2007 Annual Meeting

It is recommended that the shareholders vote for the election of Keith G. Larsen and John L. Larsen.

Executive officers are elected by the board of directors at the annual directors' meeting, which follows each Annual Shareholders' Meeting, to serve until the officer's successor has been duly elected and qualified, or until death, resignation or removal.

Family Relationships.

Keith G. Larsen, a director, CEO, Chairman, and Mark J. Larsen, formerly President of Rocky Mountain Gas, Inc. and presently President U.S. Energy Corp., and President of U.S. Moly Corp., are sons of John L. Larsen, Chairman Emeritus and a Senior Vice President, and a principal shareholder. There are no other family relationships among the executive officers or directors of the Company.

-11-

Business Experience and Other Directorships of Directors and Nominees, and Officers.

John L. Larsen, age 75, has been principally employed as an officer and director of the Company and Crested Corp. for more than the past five years. Mr. Larsen served as the Company's Chairman of the Board and Chief Executive Officer until August 23, 2005. Mr. Larsen became Chairman Emeritus of the Board, a Senior Vice President, and Chairman of the Executive Committee, on September 30, 2005. He is also the Co-Chairman and a director of Crested, an affiliate of the Company. Crested has is a public company. Mr. Larsen is Chief Executive Officer and Chairman of the board of directors of Plateau Resources Limited, Inc. and a director of Sutter Gold Mining Inc., and he was a director of Rocky Mountain Gas, Inc. (until its sale on June 1, 2005), and is a director of Yellow Stone Fuels Inc. Mr. Larsen is a director of U.S. Uranium Ltd. and U.S. Moly Corp.

Keith G. Larsen, age 47, has been principally employed by the Company and Crested for more than the past five years. He has been a director of the Company since November 25, 1997, and was its President and Chief Operating Officer from that date until August 23, 2005, when he became Chairman of the Board and Chief Executive Officer. Mr. Larsen also was the Chief Executive Officer and a director of Rocky Mountain Gas, Inc. (until its sale on June 1, 2005) and is a director of Crested. Mr. Larsen is a director of U.S. Uranium Ltd., and U.S. Moly Corp.

Mark J. Larsen, age 43, was the President of RMG until it was sold on June 1, 2005. Mr. Larsen became President and Chief Operating Officer of the Company on August 23, 2005. He also is the President of U.S. Moly Corp. Mr. Larsen graduated from the University of Wyoming with a B.S. Degree in Business Management.

Harold F. Herron, age 53, has been the Company's Vice-President since January 1989, and now is Senior Vice President. Mr. Herron is President and a director of Crested Corp, and Plateau Resources Limited, Inc., Chief Executive Officer and a director of Sutter Gold Mining Inc., and he was a director of Rocky Mountain Gas, Inc. until its sale on June 1, 2005. He is the President of U.S. Uranium Ltd. and a director of U.S. Moly Corp. Mr. Herron received an M.B.A. degree from the University of Wyoming after receiving a B.S. degree in Business Administration from the University of Nebraska at Omaha.

Daniel P. Svilar, age 77, has been General Counsel for USE and Crested for more than the past five years. He also is Secretary and a director of Crested, and Secretary of USE. He serves as General Counsel to, and as officers of the companies, at the will of the board of directors. There are no understandings between Mr. Svilar and any other person pursuant to which he was named as officer or General Counsel. Mr. Svilar received a B.S. degree in Engineering from New Mexico State University and a J.D. from the University of Wyoming in 1958. He has no family relationships with any of the other executive officers or directors of USE or Crested. During the past five years, Mr. Svilar has not been involved in any Reg. S-K Item 401(f) proceeding.

Robert Scott Lorimer, age 55, has been Chief Accounting Officer, Chief Financial Officer, Vice President of Finance and Treasurer for both USE and Crested for more than the past five years. Mr. Lorimer also has been their Vice President Finance since April 1998. Mr. Lorimer received a B.S. in Finance, Accounting, Economics and German from Brigham Young University and worked toward a Masters in Accountancy at the University of Nebraska. He serves at the will of the board of directors. There are no understandings between Mr. Lorimer and any other person, pursuant to which he was named as an officer, and he has no family relationship with any of the other executive officers or directors of USE or Crested.

Don C. Anderson, age 78, has been a Company director since May 1990. From January 1990 until mid-1993, Mr. Anderson was the Manager of the Geology Department for the Company. Mr. Anderson was Manager of Exploration and Development for Pathfinder Mines Corporation, a major domestic uranium mining and milling corporation, from 1976 until his retirement in 1988. Previously, he was Mine Manager for Pathfinder's predecessor, Utah International, Inc., from 1965 to 1976. He received a B.S. degree in geology from Brigham Young University.

Michael H. Feinstein, age 70, has been director of the Company since September 2004. Mr. Feinstein is a graduate in 1957 of Wharton School, University of Pennsylvania. He became a CPA in the state of Colorado in 1960. Mr. Feinstein is currently a financial and business consultant and the Director of Taxation for a CPA firm in Scottsdale, AZ, which provides accounting and tax services to small businesses. He has over 40 years of accounting, auditing, and business experience including 25 years of experience as an employee and subsequently a partner for Deloitte & Touche and its predecessors. He has served as a director, CFO and CEO of numerous public and private companies.

H. Russell Fraser, age 64, has been a director of the Company since 1996 and a director of Rocky Mountain Gas, Inc. since 1999. He is past President and director of American Capital, Inc., the first "A" rated financial guarantee company in New York, New York. Mr. Fraser was chairman of the board and chief executive officer of Fitch Investors Services, L.P. for more than the past five years. Fitch Investors Services, L.P., New York, New York, is a nationwide stock and bond rating and information distribution company. From 1980-1989, Mr. Fraser served as president and chief executive officer of AMBAC, the oldest municipal bond issuer in the United States. In 2005, Mr. Fraser became a director of Ascend Services Limited, a privately held financial guarantee company based in the Cayman Islands.

Before joining AMBAC, Mr. Fraser was senior vice president and director of fixed-income research at PaineWebber, Inc. While a member of the board of directors at PaineWebber, Mr. Fraser participated in both the corporate and public finance departments and headed PaineWebber's trading and sales for all corporate bond products. Previously, he managed corporate ratings at Standard & Poor's, supervising research analysis of corporate bonds, preferred stock, and commercial paper. Mr. Fraser holds a B.S. in finance and economics from the University of Arizona. He is a member of the Municipal Analysts Group of New York and founder of the Fixed Income Analysts Society.

In August 2004, Mr. Fraser and his wife, and two family companies, filed petitions for reorganization under Chapter 11 of the Bankruptcy Code, due to the impact of health problems in 2004.

Michael Thomas Anderson, age 54, was appointed to the board of directors on May 23, 2003. Mr. Anderson has run his own accounting and consulting practice since 1993. Prior to that, he was chief financial officer for an operating unit of a Fortune 500 company for eight years. From 1977 to 1985, Mr. Anderson worked in public accounting. He is a member of the AICPA and The Wyoming Society of CPAs. Mr. Anderson holds a B.S. degree in accounting from Brigham Young University.

Filing of Reports Under Section 16(a)

The Company has reviewed reports on Forms 3, 4 and 5 of ownership of common stock in the Company, which have been filed with the SEC in 2004 under Section 16(a) of the Exchange Act in 2003, and has received written representations from the filing persons. Based solely upon review of the reports and representations, six officers reported transactions late: Harold F. Herron (1); Keith G. Larsen (2); John L. Larsen (2); Robert Scott Lorimer (2); Mark J. Larsen (1); and Daniel P. Svilar (1). We know of no other late filings.

Executive Compensation

Under a Management Agreement dated August 1, 1981, USE and Crested share certain general and administrative expenses, including compensation of the officers and directors of the companies (but excluding directors' fees) which have been paid through the USECC Joint Venture ("USECC"). Substantially all the work efforts of the officers of USE and Crested are devoted to the business of both companies and to their subsidiary companies.

All personnel of USECC are employees of USE, in order to utilize the Company's ESOP as an employee benefit mechanism. The Company charges USECC for the direct and indirect costs of its employees for time spent on USECC matters, and USECC charges one-half of that amount to Crested and the Company.

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation paid to the six executive officers of USE in the three fiscal years ended December 31, 2005. The table includes compensation paid for service by such persons to subsidiaries.

SUMMARY COMPENSATION TABLE

(a) Name and Current Principal Position	(b) Year	Annual Compensation			Long Term Compensation Awards		Payouts		(i) All Other Compensation (\$) ⁽⁷⁾
		(c) Salary(\$)	(d) Bonus(\$)	(e) Other Annual Compensation (\$)	(f) Restricted Stock Award(s) (\$)	(g) Options ⁽⁶⁾ or SARs(#)	(h) LPIT Pay- outs (\$)		
John L. Larsen Sr. Vice President	2005	\$ 162,300	\$ 27,800 ⁽¹⁾	\$ 10,300	\$ 42,400 ⁽⁴⁾	100,000	\$ -0-	\$ 21,400	
	2004	176,500	14,700 ⁽²⁾	-0-	25,700 ⁽⁴⁾	125,000	\$ -0-	24,300	
	2003	174,500	25,300 ⁽³⁾	-0-	117,200 ⁽⁵⁾	-0-	-0-	22,700	
Keith G. Larsen CEO	2005	\$ 173,300	\$ 48,100 ⁽¹⁾	\$ 5,200	\$ 42,400 ⁽⁴⁾	100,000	\$ -0-	\$ 21,400	
	2004	162,000	24,500 ⁽²⁾	-0-	25,700 ⁽⁴⁾	125,000	-0-	24,300	
	2003	156,000	40,000 ⁽³⁾	-0-	62,000 ⁽⁵⁾	-0-	-0-	22,700	
Mark J. Larsen President	2005	\$ 137,300	\$ 156,500 ⁽¹⁾	\$ 5,200	\$ 42,400 ⁽⁴⁾	100,000	\$ -0-	\$ 21,400	
	2004	124,600	23,500 ⁽²⁾	-0-	-0-	125,000	-0-	18,100	
	2003**	120,000	33,300 ⁽³⁾	-0-	-0-	-0-	-0-	17,400	
Daniel P. Svilar General Counsel and Secretary	2005	\$ 150,200	\$ 27,200 ⁽¹⁾	\$ 4,600	\$ 42,400 ⁽⁴⁾	100,000	\$ -0-	\$ 21,400	
	2004	155,100	14,300 ⁽²⁾	-0-	25,700 ⁽⁴⁾	125,000	-0-	19,500	
	2003	149,400	24,700 ⁽³⁾	-0-	103,400 ⁽⁵⁾	-0-	-0-	22,700	
Harold F. Herron Sr. Vice President	2005	\$ 145,700	\$ 26,900 ⁽¹⁾	\$ 700	\$ 42,400 ⁽⁴⁾	100,000	\$ -0-	\$ 21,400	
	2004	138,000	13,800 ⁽²⁾	-0-	25,700 ⁽⁴⁾	125,000	-0-	22,600	
	2003	106,200	65,700 ⁽³⁾	-0-	89,600 ⁽⁵⁾	-0-	-0-	22,700	
R. Scott Lorimer Treasurer and CFO	2005	\$ 149,300	\$ 47,100 ⁽¹⁾	\$ -0-	\$ 42,400 ⁽⁴⁾	100,000	\$ -0-	\$ 21,400	
	2004	141,000	16,400 ⁽²⁾	-0-	25,700 ⁽⁴⁾	125,000	-0-	23,900	
	2003	135,700	24,000 ⁽³⁾	-0-	89,600 ⁽⁵⁾	-0-	-0-	22,700	

** Mr. Mark Larsen became President of RMG on October 15, 2003 and served in that position until RMG was sold in June 2005, and has served as President and Chief Operating Officer of USE since August 23, 2005. Compensation paid to Mr. Larsen as an employee of the Company (not an officer) before October 15, 2003 is not included in the table.

⁽¹⁾ Includes bonus paid at the conclusion of the RMG sale in June 2005 to John L. Larsen (\$20,000); Keith G. Larsen (\$40,000); Mark J. Larsen (\$150,000); Harold F. Herron (\$20,000); Daniel P. Svilar (\$20,000); and Robert Scott Lorimer (\$40,000). Also included in the 2005 Bonus is an annual Christmas bonus.

⁽²⁾ Consists of a bonus paid at the successful conclusion of the purchase of the Hi-Pro properties by RMG. The amount paid to each individual in the table was: John L. Larsen \$10,000, Keith Larsen \$20,000, Daniel P. Svilar \$10,000, Harold F. Herron \$10,000, R. Scott Lorimer \$12,500 and Mark Larsen \$20,000. An annual Christmas bonus is also

included in this amount.

-15-

(3) Consists of a bonus granted to officers and employees after the conclusion of the formation of Pinnacle Gas and an additional bonus granted to officers and employees after the successful release of a portion of the cash bond for reclamation of the Shootaring Canyon uranium mill and a Christmas bonus. Mr. Herron was instrumental in growing The Brunton Company to the level that it could be sold to a third party. For his efforts the Company granted Mr. Herron a bonus which is paid out over several years, ending in August 2004.

(4) Consists of 10,000 shares issued to each Officer pursuant to the Company's 2001 Stock Compensation Plan. Under the terms of the plan, each Officer is to receive 10,000 shares of the Company's common stock or some other portion as approved by the compensation committee. The Company has agreed under the terms of the plan to pay all taxes due. The officer has agreed not to sell these shares to the market or pledge them on obligations until after his (i) retirement; (ii) total disability or (iii) in the case of the death of the officer, his estate may sell the shares of stock.

(5) Consists 20,000 shares issued to each Officer pursuant to the Company's 2001 Stock Compensation Plan. Under the terms of the plan each Officer is to receive 10,000 shares of the Company's common stock or some other portion as approved by the compensation committee. There were no issuances of shares under the plan during the years ended May 31, 2001 and 2002 or the seven months ended December 31, 2002. The issuance of these shares to the officers was therefore retroactive for the funding of the shares due each officer for 2002 and 2003. The Company has agreed under the terms of the plan to pay all taxes due. The officer has agreed not to sell these shares to the market or pledge them on obligations until after his (i) retirement; (ii) total disability or (iii) in the case of the death of the officer his estate may sell the shares of stock. Also includes shares issued under the 1996 stock award program multiplied by \$3.50 (the closing market price on the issue date for the year ending December 31, 2003). These shares are subject to forfeiture on termination of employment, except for retirement, death or disability. If the Company were to pay a stock dividend, dividends would be paid on these shares. The shares issued to each officer were 15,774, 11,830, 7887 and 7887 shares to John L. Larsen, Daniel P. Svilar, Harold F. Herron and Robert Scott Lorimer, respectively. This is the final funding under the Company's 2001 Stock Compensation Plan.

(6) Stock options granted pursuant to the Company's 2001 Incentive Stock Option Plan. See details of the options under "Grants to Executive Officers (Qualified and Nonqualified)" below.

(7) Dollar values for ESOP contributions.

Executive Compensation Plans and Employment Agreements

The Company has adopted a plan to pay the dependents of Messrs. J. Larsen and Svilar amounts equivalent to the salaries they are receiving at the time of their death, for a period of one year after death, and reduced amounts for up to five years thereafter. The amounts to be paid in such subsequent years have not yet been established, but would be established by the boards of directors of the Company and Crested.

Mr. Svilar has an employment agreement with the Company and Crested, which provides for a base annual salary of \$100,000, with the condition that Mr. Svilar pay an unspecified amount of expenses incurred by him on behalf of the Company and its affiliates. In the event Mr. Svilar's employment is involuntarily terminated, he is to receive an amount equal to the salary he was being paid at termination, for a year. If he should voluntarily terminate his employment, the Company and Crested will pay him that salary for nine months thereafter. The foregoing is in addition to Mr. Svilar's Executive Severance and Non-Compete Agreement with the Company (see below).

In fiscal 1992, the Company signed Executive Severance and Non-Compete Agreements with Messrs. John L. Larsen, Svilar and Lorimer, providing for payment to such person upon termination of his employment with the Company, occurring within three years after a change in control of the Company, of an amount equal to (i) severance pay in an amount equal to three times the average annual compensation over the prior five taxable years ending before change in control, (ii) legal fees and expenses incurred by such persons as a result of termination, and (iii) the difference between market value of securities issuable on exercise of vested options to purchase securities in USE, and the options' exercise price. These Agreements also provide that for the three years following termination, the terminated individual will not compete with USE in most of the western United States in regards to exploration and development activities for uranium, molybdenum, silver or gold. During fiscal 2001, the Company signed similar Agreements with Keith Larsen, Mark Larsen, Richard Larsen (an employee of USE but not an officer or director of USE or its affiliates), and Harold Herron. For such non-compete covenant, such persons will be paid monthly over a three year period an agreed amount for the value of such covenants. These Agreements are intended to benefit the Company's shareholders, by enabling such persons to negotiate with a hostile takeover offer and assist the board of directors concerning the fairness of a takeover, without the distraction of possible tenure insecurity following a change in control. As of this proxy statement, the Company is unaware of any proposed hostile takeover.

The Company and Crested provide all of their employees with certain forms of insurance coverage, including life and health insurance, with the exception of Messrs. John L. Larsen and Daniel P. Svilar. The Company and Crested reimburse Messrs. John Larsen and Svilar for their Medicare supplement premiums. The health insurance plan does not discriminate in favor of executive employees; life insurance of \$200,000 is provided to each member of upper management (which includes all persons in the compensation table except Messrs. John L. Larsen and Mr. Svilar), \$100,000 of such coverage is provided to middle-management employees, and \$90,000 of such coverage is provided to other employees.

Retirement Policy. U.S. Energy Corp. ("USE") and its subsidiary Crested Corp. ("Crested") have adopted retirement policies as of October 20, 2005. These policies were amended in February 2006. These policies include a mandatory retirement age of 70, unless the board of directors of the applicable company requests the services of officers or employees past that age. In this latter regard, the board of directors of USE and Crested each has requested John L. Larsen and Daniel P. Svilar to continue serving the companies, as executive officers, so long as they wish to do so.

Additionally, the retirement policies include a retirement benefit eligibility for an individual who has reached 60 years of age, has served for a minimum of 15 years as an executive officer (in one of the categories listed below), and remains in the employment on or after December 31, 2010. The executive officers eligible for this benefit are the Chairman/CEO, President/COO, CFO/Treasurer and Vice President of Finance, Senior Vice President, General Counsel and Employee Board Members on the Executive Committee. Presently, only John L. Larsen and Daniel P. Svilar are eligible for this retirement benefit, but at the request of the boards of directors, both individuals are continuing service as executive officers.

Under the terms of the executive retirement plan, the named officers are to receive 50% of the greater of (i) that amount of compensation (annualized) which he has received as base cash pay (using his final regular pay check to calculate the annual rate), or (ii) the average annual pay rate, less all bonuses, which he received over the last five years of employment. This benefit for executives is to be paid monthly (in accordance with normal bi-weekly payroll practices) for five years following termination of employment, or, if later, the month in which the executive attains age 60. However, the first six months of benefits may be paid in the seventh month for a 'specified employee' (as that term is defined in section 409(a)(2)(B) of the Internal Revenue Code) instead of bi-weekly for the first six months. If the executive dies, the unpaid installments will be paid to his designee (or classes of preference beneficiaries, if there is no designee). The benefits otherwise are not assignable.

In return for this benefit, the retired executive officer will be available to USE and Crested for up to 1,040 hours per year for consulting or any other services the board deems is needed. Service in addition to this annual hourly amount would be compensated on an hourly basis at the compensation rate in effect at retirement. This retirement benefit can be extended beyond the five year period at the discretion of the Board of the respective corporation, at a rate which would be negotiated (but not less than the initial retirement rate).

The retirement benefit plan is not secured or funded by any arrangement, and would be funded only from the general funds of the company.

Employee Stock Ownership Plan ("ESOP"). An ESOP has been adopted to encourage ownership of the common stock by employees, and to provide a source of retirement income to them. The ESOP is a combination stock bonus plan and money purchase pension plan. It is expected that the ESOP will continue to invest primarily in the common stock. Messrs. John L. Larsen and Harold F. Herron are the trustees of the ESOP.

Contributions to the stock bonus plan portion of the ESOP are discretionary and are limited to a maximum of 15% of the covered employees' compensation for each accounting year. Contributions to the money purchase pension portion of the ESOP are mandatory (fixed at ten percent of the compensation of covered employees for each year), are not dependent upon profits or the presence of accumulated earnings, and may be made in cash or shares of company's common stock.

The Company made a contribution of 56,494 shares to the ESOP for the twelve months ended December 31, 2005, all of which were contributed under the money purchase pension plan. At the time the shares were contributed, the market price was \$4.65 per share, for a total contribution with a market value of \$262,700 (which has been funded by the Company). The Company and Crested each are responsible for one-half of that amount. 27,096 of the shares were allocated to the ESOP accounts of the executive officers of the Company. Additionally, 552 shares were allocated to the ESOP accounts of these same individuals from ESOP shares forfeited by terminated employees who were not fully vested.

Employee interests in the ESOP are earned pursuant to a seven year vesting schedule; after three years of service, the employee is vested to 20% of the ESOP account, and thereafter at 20% per year. Any portion which is not vested is forfeited upon termination of employment, other than by retirement, disability, or death.

The maximum loan outstanding during the twelve months ended December 31, 2005 under a loan arrangement between the Company and the ESOP was \$927,000. Interest owed by the ESOP was not booked by the Company. Crested pays one-half of the amounts contributed to the ESOP by the Company. Because the loans are expected to be repaid by contributions to the ESOP, Crested may be considered to indirectly owe one-half of the loan amounts to the Company.

401(k) Plan. In first quarter 2004, the Company established a traditional qualified 401(k) plan for employees, by which the Company will match \$0.50 for each \$1.00 contributed by participating employees, up to an annual \$4,000 per employee maximum contribution by the Company. During the twelve months ended December 31, 2005, the Company has contributed \$52,700 to this plan. Plan eligibility and vesting rules are uniform for all employees, including executive officers of the Company.

1998 Incentive Stock Option Plan. The Company's 1998 Incentive Stock Option Plan ("1998 ISOP") reserved an aggregate of 3,250,000 shares of common stock for issuance upon exercise of options granted thereunder.

Options expire no later than ten years from the date of grant, and upon termination of employment for cause. Subject to the ten year maximum period, upon termination, unless terminated for cause, options are exercisable for three months or in the case of retirement, disability or death, for one year.

At December 31, 2005 there were 1,266,505 options outstanding. No more options will be issued under the 1998 ISOP.

2001 Incentive Stock Option Plan ("2001 ISOP"). The 2001 ISOP was approved at the 2001 Annual Meeting of Shareholders meeting, and provides for the issuance of options to purchase up to three million (3,000,000) shares of common stock. The 2001 ISOP was amended in 2004 to provide that the number of shares available for issuance always shall equal 20% of the total shares issued and outstanding at any point in time. The options are intended to qualify under section 422 of the Internal Revenue Code. Options are issued at exercise prices equal to (or for holders of 10% or more of the outstanding stock at the time, 110% of) market price on grant dates, and would vest (become exercisable) at various times as determined by the executive committee and approved by the board of directors. All options are exercisable for cash, or through other means as determined by the executive committee and approved by the board of directors, in accordance with similar plans of public companies.

For information about options, please see the consolidated Financial Statements in the Annual Report for the twelve months ended December 31, 2005. In 2005, 700,000 options were granted, 65,000 options were cancelled, and 304,729 options were exercised. At December 31, 2005, there were 2,989,271 options outstanding under this plan.

**Option Grants to Executive Officers in the Twelve Months
Ended December 31, 2005 (Nonqualified)**

Name	Number of Shares Under Lying Options Granted	Percent of All Options Granted to Employees in 2005	Exercise Price	Expiration Date ⁽¹⁾	Grant Date	Pres. Value ⁽²⁾
John L. Larsen	100,000	14.3%	\$3.86	10/13/15		\$319,100
Keith G. Larsen	100,000	14.3%	\$3.86	10/13/15		\$319,100
Harold F. Herron	100,000	14.3%	\$3.86	10/13/15		\$319,100
Daniel P. Svilar	100,000	14.3%	\$3.86	10/13/15		\$319,100
R. Scott Lorimer	100,000	14.3%	\$3.86	10/13/15		\$319,100
Mark G. Larsen*	100,000	14.3%	\$3.86	10/13/15		\$319,100

* Formerly, President of Rocky Mountain Gas, Inc. Mr. Larsen resigned this position on the sale of RMG on June 1, 2005.

⁽¹⁾ Options were granted on October 14, 2005.

⁽²⁾ The Black-Scholes option-pricing model was used to determine the grant date present value of the stock options that were granted to the named officer. The following facts and assumptions were used: An exercise price of \$3.86 which was equal to the market value of the stock on the grant date; a zero dividend yield; expected volatility of 78.1%, risk-free interest rate of 4.38% and an expected life of 10 years.

**Aggregated Option/SAR Exercises in Last Fiscal Year and
Twelve Months Ended 12/31/05 and Option/SAR Values at 12/31/05**

The following table shows options exercised during the twelve months ended December 31, 2005, options outstanding and exercisable at December 30, 2005 and the dollar values for in-the-money options, at December 31, 2005 (closing market price on that date was \$4.38).

(a) <u>Name</u>	(b) In Twelve Months Ended 12/31/05 Shares Acquired On Exercise (#)	(c) Value Realized(\$)	(d) Number of Options/SARs Outstanding at 12/31/05	(e) Number of Options/SARs Exercisable at 12/31/05	(f) Value of In-the-Money Options/SARs at 12/31/05
John L. Larsen, Sr. Vice President	-0-	-0-	34,782	34,782	\$ 52,347 ⁽¹⁾
	-0-	-0-	77,718	77,718	\$ 184,969 ⁽²⁾
	-0-	-0-	184,400	184,400	\$ 365,112 ⁽³⁾
	-0-	-0-	100,000	100,000	\$ 48,000 ⁽⁴⁾
	-0-	-0-	97,000	97,000	\$ 206,610 ⁽⁵⁾
	-0-	-0-	125,000	100,000	\$ 192,000 ⁽⁶⁾
	-0-	-0-	100,000	100,000	\$ 52,000 ⁽⁷⁾
Keith G. Larsen Chairman/CEO	-0-	-0-	-0-	-0-	\$ -0- ⁽¹⁾
	-0-	-0-	52,718	52,718	\$ 125,469 ⁽²⁾
	11,321	\$ 20,800	267,734	267,734	\$ 530,113 ⁽³⁾
	-0-	-0-	100,000	100,000	\$ 48,000 ⁽⁴⁾
	44,444	\$ 88,400	52,556	52,556	\$ 111,944 ⁽⁵⁾
	-0-	-0-	84,350	59,350	\$ 113,952 ⁽⁶⁾
	-0-	-0-	100,000	100,000	\$ 52,000 ⁽⁷⁾
Harold F. Herron, Sr. Vice President	17,391	\$ 83,000	-0-	-0-	\$ -0- ⁽¹⁾
	-0-	-0-	20,109	20,109	\$ 47,859 ⁽²⁾
	-0-6,083	\$ 31,900	27,617	27,617	\$ 54,682 ⁽³⁾
	-0-	-0-	50,000	50,000	\$ 24,000 ⁽⁴⁾
	22,222	\$ 120,000	26,278	26,278	\$ 55,972 ⁽⁵⁾
	-0-	-0-	125,000	100,000	\$ 192,000 ⁽⁶⁾
	-0-	-0-	100,000	100,000	\$ 52,000 ⁽⁷⁾
Daniel P. Svilar Secretary	-0-	-0-	34,782	34,782	\$ 52,347 ⁽¹⁾
	-0-	-0-	40,218	40,218	\$ 95,719 ⁽²⁾
	-0-	-0-	121,900	121,900	\$ 241,362 ⁽³⁾
	-0-	-0-	100,000	100,000	\$ 48,000 ⁽⁴⁾
	-0-	-0-	97,000	97,000	\$ 206,610 ⁽⁵⁾
	-0-	-0-	125,000	100,000	\$ 192,000 ⁽⁶⁾
	-0-	-0-	100,000	100,000	\$ 52,000 ⁽⁷⁾

Edgar Filing: US ENERGY CORP - Form PRE 14A

(a)	(b)	(c)	(d)	(e)	(f)
<u>Name</u>	In Twelve Months		Number of	Number of	Value of
	Shares	Value	Options/SARs	Options/SARs	In-the-Money
	Acquired	Realized(\$)	at 12/31/05	at 12/31/05	Options/SARs
	on		Outstanding	Exercisable	Exercisable
	Exercise				
	(#)				
R. Scott Lorimer	34,782	\$ 43,500	-0-	-0-	\$ -0-(1)
CFO/Treasurer	-0-	-0-	40,218	40,218	\$ 95,719(2)
	-0-	-0-	80,233	80,233	\$ 158,861(3)
	-0-	-0-	100,000	100,000	\$ 48,000(4)
	44,444	\$ 83,500	52,556	52,556	\$ 111,944(5)
	-0-	-0-	84,350	59,350	\$ 113,952(6)
	-0-	-0-	100,000	100,000	\$ 52,000(7)
Mark J. Larsen	-0-	-0-	27,782	27,782	\$ 41,812(1)
President	-0-	-0-	-0-	-0-	\$ -0-(2)
	-0-	-0-	41,248	41,248	\$ 81,671(3)