

US ENERGY CORP
Form PRER14A
May 08, 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:
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 - 4) Proposed maximum aggregate value of transaction:
 - 5) Total fee paid:
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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 Proposals 2 and 3, any 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. Proposal 3 requires for approval a number of votes cast in favor exceeding the votes opposed, and votes cast by subsidiaries of the Company on Proposal 3 are not counted as for or against.

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.

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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	25,476	420,720	25,476	443,400	468,876	2.4%