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 X Filed by a party other than the Registrant

Check the appropriate box:
_X_ 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):
_X_ 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**
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**Notice of Annual Meeting of Shareholders**
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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.

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

| | | | | | | |
|---|---|---|---|---|---|---|
| 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 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.

**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**

| | | Annual Compensation | | | Long Term Compensation Awards | | Payouts | |
|---|---|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) |
| Name and Current Principal Position | Year | Salary($) | Bonus($) | Other Annual Compen-sation ($) | Restricted Stock Award(s) ($) | Options[6] or SARs(#) | LPIT Pay-outs ($) | All Other Compen-sation ($)[7] |
| John L. Larsen | 2005 | $ 162,300 | $ 27,800[1] | $ 10,300 | $ 42,400(4) | 100,000 | $ -0- | $ 21,400 |
| Sr. Vice President | 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 | 2005 | $ 173,300 | $ 48,100[1] | $ 5,200 | $ 42,400(4) | 100,000 | $ -0- | $ 21,400 |
| CEO | 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 | 2005 | $ 137,300 | $ 156,500[1] | $ 5,200 | $ 42,400(4) | 100,000 | $ -0- | $ 21,400 |
| President | 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 | 2005 | $ 150,200 | $ 27,200[1] | $ 4,600 | $ 42,400(4) | 100,000 | $ -0- | $ 21,400 |
| General Counsel | 2004 | 155,100 | 14,300(2) | -0- | 25,700(4) | 125,000 | -0- | 19,500 |
| and Secretary | 2003 | 149,400 | 24,700(3) | -0- | 103,400(5) | -0- | -0- | 22,700 |
| Harold F. Herron | 2005 | $ 145,700 | $ 26,900[1] | $ 700 | $ 42,400(4) | 100,000 | $ -0- | $ 21,400 |
| Sr. Vice President | 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 | 2005 | $ 149,300 | $ 47,100[1] | $ -0- | $ 42,400(4) | 100,000 | $ -0- | $ 21,400 |
| Treasurer and | 2004 | 141,000 | 16,400(2) | -0- | 25,700(4) | 125,000 | -0- | 23,900 |
| CFO | 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.

(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) | (b) In Twelve Months Ended 12/31/05 | (c) | (d) | (e) | (f) |
|---|---|---|---|---|---|
| Name | Shares Acquired On Exercise (#) | Value Realized($) | Number of Options/SARs at 12/31/05 Outstanding | Number of Options/SARs at 12/31/05 Exercisable | Value of In-the-Money Options/SARs at 12/31/05 Exercisable |
| John L. Larsen, | -0- | -0- | 34,782 | 34,782 | $ 52,347[1] |
| Sr. Vice President | -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 | -0- | -0- | -0- | -0- | $ -0-[1] |
| Chairman/CEO | -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, | 17,391 | $ 83,000 | -0- | -0- | $ -0-[1] |
| Sr. Vice President | -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 | -0- | -0- | 34,782 | 34,782 | $ 52,347[1] |
| Secretary | -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] |

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| (a) | (b) | (c) | (d) | (e) | (f) |
|---|---|---|---|---|---|
| | In Twelve Months Ended 12/31/05 | | | | Value of |
| Name | Shares Acquired on Exercise (#) | Value Realized($) | Number of Options/SARs Outstanding at 12/31/05 | Number of Options/SARs Exercisable at 12/31/05 | In-the-Money Options/SARs Exercisable at 12/31/05 |
| 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] |
| | -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] |

[1] Equal to $4.38, the closing market price on December 30, 2005, less $2.875 per share option exercise price, multiplied by all shares exercisable.

[2] Equal to $4.38, the closing market price on December 30, 2005, less $2.00 per share option exercise price, multiplied by all shares exercisable.

[3] Equal to $4.38, the closing market price on December 30, 2005, less $2.40 per share option exercise price, multiplied by all shares exercisable.

[4] Equal to $4.38, the closing market price on December 30, 2005, less $3.90 per share option exercise price, multiplied by all shares exercisable.

[5] Equal to $4.38, the closing market price on December 30, 2005, less $2.25 per share option exercise price, multiplied by all shares exercisable.

[6] Equal to $4.38, the closing market price on December 30, 2005, less $2.46 per share option exercise price, multiplied by the number of options exercisable.

[7] Equal to $4.38, the closing market price on December 30, 2005, less $3.86 per share option exercise price, multiplied by the number of options exercisable.

**1996 Stock Award Program.** The Company had an annual incentive compensation arrangement for the issuance of up to 67,000 shares of common stock each year (from 1997 through 2002) to executive officers of the Company, in amounts determined each year based on earnings of the Company for the prior fiscal year. A total of 392,536 shares were issued under this plan. The compensation committee did not award any shares under this plan during the seven months ended December 31, 2002; 43,378 shares were issued in 2003 to close out the program. One-half of the compensation expense under the Program was the responsibility of Crested.

Each allocation of shares was determined by the compensation committee; the shares were issued in the name of the officer, and is being earned out (vested) over 5 years, at the rate of 20% as of May 31 of each year following the date of issue. However, none of the vested shares become available to or come under the control of the officer until termination of employment by retirement, death or disability. Upon termination, the share certificates will be released to the officer; until termination, the certificates are held by the Treasurer of the Company. Voting rights are exercised over the shares by the non-employee directors of the Company; dividends or other distributions with respect to the shares will be held by the Treasurer for the benefit of the officers.

The number of shares awarded each year out of such 67,000 shares aggregate limit was determined by the compensation committee.

**2001 Stock Compensation Plan.** The shareholders approved the 2001 Stock Compensation Plan (the "plan") at the 2001 Annual Shareholders Meeting.

The plan has an initial term of seven years, with up to 10,000 shares of common stock to be issued in January of each year to six individuals (five officers of U.S. Energy Corp: John L. Larsen, Keith G. Larsen, Robert Scott Lorimer, Harold F. Herron, Daniel P. Svilar, and Mark J. Larsen, formerly President and a director of Rocky Mountain Gas, Inc. and now President of the Company and of U.S. Moly Corp.). The number of shares to be issued in any year is determined by the compensation committee and approved by the independent directors, taking into account our public stock prices at the date of grant and during the prior calendar year, the Company's financial condition and business prospects, and other factors deemed appropriate. The Company pays the income taxes owed by recipients as a result of receipt of the stock.

The stock recipients have agreed not to sell or transfer such shares during their employment with the Company. During the year ended December 31, 2005, 10,000 shares were granted under the Plan each to John L. Larsen, Keith G. Larsen, Robert Scott Lorimer, Harold F. Herron, Daniel P. Svilar and Mark J. Larsen.

The 2001 Stock Compensation Plan is now the sole mechanism for compensating management with stock, however options may be granted to management and others under the 2001 ISOP. This plan is designed to reward executives with equity, and encourage them to increase their ownership of the Company and not sell their shares in the market.

**Directors' Fees and Other Compensation**

The Company paid non-employee directors a fee of $150 per meeting attended. All directors are reimbursed for expenses incurred with attending meetings. Starting in 2006, the directors are no longer paid the fee per meeting, but are paid a flat fee of $1,000 per month.

**Certain Relationships and Related Transactions**

**Debt Owed by a Director**. In the early 1990s, Harold F. Herron, an officer and director, had been living in and caring for a house owned by the Company. In fiscal 1995, Mr. Herron purchased the home for $260,000 (equal to appraised value), and was reimbursed by the Company for $22,830 of leasehold improvements he had made to the property. The Company accepted a promissory note for $112,170 of the purchase price, with 7% annual interest. This note was a nonrecourse note secured by 30,000 shares of the Company's common stock owned by Mr. Herron. At January 31, 2006, the note had been completely repaid by the surrender of the 30,000 shares of U.S. Energy common stock.

**Family Employment.** Three of John L. Larsen's sons and one grandson are employed by the Company or subsidiaries. Collectively, Mr. Larsen and these family members received $1,114,500 in total compensation for services during the twelve months ended December 31, 2005, including benefits and ESOP contributions.

Richard Larsen (one of John L. Larsen's sons) was indebted to the Company in the amount of $65,200 at December 31, 2005. Richard Larsen is not an officer of the Company. John L. Larsen has pledged 124,000 shares of his U.S. Energy common stock as collateral on his son's debt.

**Transactions Involving USECC and Crested**. The Company and Crested conduct most activities through their equally-owned joint venture USECC. From time to time the Company and Crested advance funds to or make payments on behalf of USECC, which create intercompany debt. The party extending funds is subsequently reimbursed by the other venturer. Crested owed the Company $10,821,800 at December 31, 2005.

**Stock Options in UPC Held by an Employee**. Chris M. Healy, Vice-President of exploration for USE , is a director of Uranium Power Corp., a public company traded on the Toronto Venture Exchange. UPC is buying a 50% interest in certain uranium properties owned by, and is a joint venture partner in a mining venture agreement with, USE and Crested. For services on the UPC board of directors, Mr. Healy has been granted options to purchase 200,000 shares of UPC common stock at Cdn. $0.50 per share which were granted on May 4, 2005 and expire two years later. Mr. Healy is not a director, nor is he an executive officer, of USE or Crested.

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

Typically, projects initially are acquired, financed and operated by USE and Crested in their joint venture. From time to time, some of the projects are later transferred to separate companies organized for that purpose, with the objective of raising capital from an outside source for further development and/or joint venturing with other companies. Examples of this corporate strategy are, for gold properties, Sutter Gold Mining Inc. (formerly Globemin Resources Inc., a publicly traded British Columbia company, which acquired Sutter Gold Mining Company, and then changed its name to Sutter Gold Mining Inc.); and Rocky Mountain Gas, Inc. for coalbed methane gas. Additional subsidiaries have been organized but are not yet active: U.S. Uranium Ltd. for uranium, and U.S. Moly Corp. for molybdenum.

Initial ownership of these subsidiaries is by USE and Crested, with additional stock (plus options) issued by the subsidiary company's board of directors to the officers, certain of the directors, and employees of USE. Additional stock and/or options may be issued to other persons with experience specifically related to the subsidiary company's projects. The stock, and the options, will be forfeited if the individual's employment is terminated for any reason except retirement. The subsidiary stock is issued to officers, directors and employees for nominal cash consideration. The subsidiary ownership percentages will vary, but in general, officers, directors and employees of USE collectively would not own more than 10% (on an initial fully diluted basis, including options), and USE and Crested would own 90%. USE' and Crested's participation in that 90% will depend on the properties and funding which each contributes to the subsidiary at inception. Subsequent investments by third parties would dilute the stock ownership of all the initial owners.

On the disposition of a subsidiary company through a merger, sale of assets, or other transaction, the equity positions in subsidiary companies held by officers, directors and employees of USE will be entitled to receive the same consideration (pro rata) as the equity positions of USE, Crested and third party investors; no preferential terms will be accorded to the officers, directors and employees. If a subsidiary becomes a public company through an underwritten initial public offering, some or all of the equity held by USE, Crested and the individuals might be subject to lock up restrictions for a period of time following the offering. Typically, those lock up restrictions would apply equally (have the same duration) for USE and Crested, and for the officers and directors, although equity held by non-management employees might not be locked up.

The profitability (if any) of the stock in the subsidiaries owned USE, Crested, and the individuals, will not be known until a disposition or a successful public offering occurs. A subsidiary company may be merged, its assets sold, or otherwise disposed of without the transaction being subject to a vote by the shareholders of USE and Crested, in which event the shareholders of USE and Crested would be relying on the judgment of the directors of USE and Crested who do not own stock or hold options to buy stock in the subsidiary.

On June 1, 2005, Rocky Mountain Gas, Inc. was sold to Enterra Energy Trust. USE and Crested, and the other shareholders of RMG, including employees and officers and directors of USE, received compensation in this transaction. For information on such compensation, please see the proxy statement for the annual shareholders' meeting held in July 2005. The information contained in that proxy statement under the caption "Certain Relationships and Related Transactions" is incorporated by reference into this proxy statement, and a copy of the 2005 proxy statement will be sent upon request to Daniel P. Svilar, Secretary, 877 N. 8th W., Riverton, WY 82501.

As of the date of this proxy statement, USE and Crested, and their officers, certain of their directors, and their employees, own stock and options to buy stock in the subsidiaries shown below. Information about subsidiaries, which are not now active or expected to become active in 2005, is not shown.

- U.S. Uranium Ltd. ("USUL") has issued options to purchase a total of 3,080,000 shares of common stock, at an exercise price of $0.25 per share, to officers, directors and employees of USE and Crested. All these options have a 10 year life and vest at the rate of 20% for 5 years. In 2006, it is possible that USUL will issue stock to these individuals, and will issue stock to USE and Crested for certain uranium properties to be transferred into USUL in 2005. The percentage ownership of USE and Crested would be approximately 90% on a combined basis, after the properties are transferred. USUL has not yet commenced operations and the uranium properties to be transferred into USUL have not yet been identified.

- U.S. Moly Corp. ("USMC") has issued options to purchase a total of 3,080,000 shares of common stock, at an exercise price of $0.25 per share, to officers, directors and employees of USE and Crested. All these options have a 10 year life and vest at the rate of 20% for 5 years. In 2006, it is possible that USMC will issue stock to these individuals for nominal cash consideration, and will issue stock to USE and Crested for the Mt. Emmons, Colorado molybdenum properties, along with other rights and obligations associated with those properties. The percentage ownership of USE and Crested would be approximately 90% on a combined basis, after the properties are transferred. USMC has not yet commenced operations.

- Sutter Gold Mining Inc. ("SGMI") is owned 64.2% by USE; 1.5% by Crested; and 4% by officers and some of the directors of USE and Crested. Options to purchase 1,500,000 shares are held by officers and directors of USE and Crested; additional options are held by USE employees, and also by officers and directors of SGMI who are not affiliated with USE or Crested. In 2006, SGMI plans to resume exploration activities on its gold property in California.

**Payment of Cash Bonuses**. From time to time, the Company pays cash bonuses to officers and employees for example, a holiday bonus is usually paid each year. In addition, bonuses are paid from time to time for exemplary service. As an example, a bonus totaling $470,750 was paid in 2005 to certain employees, including officers (and Mark J. Larsen as former president of RMG) for the successful completion of the Enterra transaction. Of that amount, officers received $140,000; Mark Larsen as former president of RMG received $150,000; outside directors of USE received $20,000 and outside directors of RMG received $15,000. In the future, bonuses likely will be paid on the successful completion of similar transactions, for bringing an industry partner into a minerals project, or in connection with the acquisition of a business or significant properties. This form of compensation would be in addition to the benefits which would be realized by the officers and directors because of their ownership in a subsidiary which is sold, or which receives industry partner or institutional funding.

In addition, bonuses likely will be paid upon the conclusion of the litigation involving Nukem, which began in the early 1990s. Management has devoted extraordinary time to this litigation over the past 15 years, in addition to running the Company's business. Neither the amount of the total bonus which would be paid , nor the allocation among individuals, will be determined until after the Nukem litigation has been finally resolved. However, the total bonus package could be from 10% to 25% of the total cash award, assuming we receive a cash award on final resolution. And, it is likely that bonuses would be paid even if the Company does not receive a cash award. In this regard, we note that the Company has received net cash awards in the past from this litigation (approximately $15 million in 1998). The bonus package will be determined by the independent directors of the Company after consultation with the employees and outside counsel that were involved after final resolution of the litigation. Like most matters in litigation, the timing of such resolution, or the amount of awards (if any) cannot be predicted.

**Proposal 2: Amendment to Articles of Incorporation (Permit Removal of Directors by Shareholder Vote only for Cause)**

Section 17-16-808(a) of the Wyoming Business Corporation Act (the "WBCA") allows the shareholders of a Wyoming corporation to remove one or more directors with or without cause, unless the articles of incorporation provide that directors may be removed only for cause. USE's articles of incorporation do not so limit the right of shareholders to remove directors. "For cause" is not defined in the WBCA, but circumstances which might constitute grounds for shareholders to seek removal for cause might include (but not be limited to ) evidence of a director's breaching his fiduciary duties to the corporation or its shareholders, or events of a personal nature or involving business activities outside the corporation which have rendered the person unfit for continued service as a director.

If the Company were to become the object of an unsolicited (hostile) takeover attempt, then, under the circumstances allowed by the Company's 'poison pill' defense plan, the board of directors would have the authority to take the measures allowed by the plan, in order to prevent a hostile takeover of the Company on terms which the board of directors believes are unfair to the shareholders at large. However, without a provision in the articles of incorporation prohibiting shareholder removal of directors only for cause, if the hostile takeover party could get support for shareholders' removal of a majority of the incumbent directors without cause, it could install its own slate of directors. The result could be that the poison pill defense measures could be repealed, thus allowing the hostile takeover to proceed with disadvantageous terms.

Proposal 2 is not intended to thwart a change in control of the Company, but it is intended (like the poison pill defense plan) to further encourage persons who might be interested in acquiring control of the Company to negotiate with the incumbent directors. The incumbent directors would be bound by fiduciary duty to obtain the best possible terms for all shareholders.

We have no knowledge of any contemplated unsolicited hostile takeover bid for the Company, but the board of directors recommends approval of Proposal 2 as an additional measure to protect the shareholders if such a bid were to be commenced.

**Proposal 3**: **Approval of the Future Issuance of Shares to Cornell Capital Partners, LP.** to Comply with Nasdaq Marketplace Rule 4350(i)(1)(D).

**General**

On April 11, 2006, we signed a Standby Equity Distribution Agreement ("SEDA") with Cornell Capital Partners, LP ("Cornell"), under which Cornell has committed to provide up to $50 million of equity financing to U.S. Energy Corp. over 36 months. Each advance under the SEDA will have a maximum amount of $5 million, and there must be at least five trading days between each advance. Access to the SEDA financing is subject to the company having an effective re-sale registration statement on file with the SEC for the securities underlying the SEDA.

Each advance under the SEDA will be a sale by us to Cornell of newly-issued shares of common stock. Subject to a re-sale registration statement being in effect, we will determine whether and when to request an advance, and the amount of the advance (subject to the $5 million maximum). The number of shares (the "SEDA shares") to be sold to Cornell will be determined by dividing the advance amount by 98% of market price for our stock. Market price is defined in the SEDA as the lowest daily volume weighted average price ("VWAP") of our common stock during the five trading days period immediately following the date we send an advance notice to Cornell. We also will pay Cornell a cash fee equal to 2% of each advance amount, plus $500, for each advance under the SEDA.

On signing of the SEDA, we paid Cornell $20,000 for a structuring and due diligence fee, and issued to Cornell (i) 68,531 shares of restricted common stock (the "investor shares"); and (ii) a three year warrant (the "initial warrant") to purchase 100,000 shares of restricted common stock at $7.15 per share (the "initial warrant shares"). If the closing bid price for our stock exceeds 150% of the exercise price of the applicable exercise price in a ten consecutive trading day period, the warrant will expire 20 trading days later unless exercised (but will not expire to the extent not exercised, if the closing bid price should be equal to or lower than $7.15 during the 20 day period). This kind of provision is often referred to as "forced exercise."

In addition, each time we take advances aggregating $5 million under the SEDA, we will issue a “milestone warrant” to Cornell, to purchase 100,000 shares at the average VWAP for our stock for the ten trading days immediately preceding the date of the $5 million advance (or the last advance which brings the aggregate to $5 million). Like the initial warrant, the milestone warrants will have a forced exercise provision.

We engaged Newbridge Securities Corporation, a registered broker-dealer, to act as our placement agent in connection with the SEDA. We have issued 1,399 restricted shares of common stock (the “Newbridge shares”) to Newbridge as compensation for services.

By a registration rights agreement with Cornell, we have agreed to file with the SEC a registration statement covering public resale of the SEDA shares to be sold to Cornell, the investor shares, the Newbridge shares, and the initial warrant shares. If we issue milestone warrants to Cornell, we will file additional registration statements to cover resale of shares issued on exercise thereof.

The Nasdaq Official Closing Price for our common stock on April 19, 2006 was $7.02; the price on the record date (April 25, 2006) was $6.96.

Whether and to what extent the SEDA financing will be used cannot be predicted. On hand at December 31, 2006 are substantial cash (and investments, for example, the Enterra Trust Units which we will receive on June 1, 2006) for continued exploration and development work on our uranium and molybdenum properties. Management continues to seek industry partners and/or direct investment by industry partners or institutional investors for the joint venture development of the properties. We also might sell some of the properties outright.

In the meantime, we signed the SEDA to have back up financing available, if needed, for possible substantial capital and exploration/development expenditures, as well as for general and administrative expenses. SEDA financing also might be used for business acquisitions or other purposes in the future. However, we have not yet identified any specific application of SEDA financing. The company’s board of directors believes that the effective 4% cost of funds under the SEDA is very competitive in the equity capital markets.

While Cornell will have the right to sell shares in the market as soon as we submit an advance request to Cornell, Cornell may or may not do so. If it does not, Cornell will have the right to sell, or keep, the SEDA shares, like any other investor, based on its assessment of the company’s financial condition, current business, and its position in the minerals sector**.**

**Why We Need Shareholder Approval**

The Company is authorized under Wyoming law to issue an unlimited number of shares of common stock. However, the company’s common stock is traded on the Nasdaq Capital Market (“Nasdaq”). Therefore, we are subject to the NASD’s Nasdaq Marketplace Rules of the Nasdaq Stock Market. Unless shareholder approval is obtained, under Nasdaq Marketplace Rule 4350(i)(1)(D) - the “20% rule” - we would not be allowed to issue more than an additional 20% of stock to Cornell (based on the 19,605,360 shares outstanding on April 14, 2006): 4,021,072 shares (3,921,072 SEDA shares and 100,000 initial warrant shares). This base number of available SEDA shares will decrease as milestone warrants are issued to Cornell.

Shareholder approval is not required for the Company to issue fewer than 3,921,072 SEDA shares. In addition, shareholder approval is not required for future issuances of common stock in transactions outside the SEDA, so long as the 20% rule (as applied to each such transaction or set of related transactions) would not be exceeded.

We need shareholder approval to issue more than 3,921,072 SEDA shares (20% of the shares outstanding at April 14, 2006), because only if the stock price exceeds $17.74 would the company be able to raise $50 million by the SEDA (2,818,072 SEDA shares, and ten milestone warrants for a total of 1,000,000 milestone warrant shares). Without shareholder approval, if the stock price were $5.85, we would be able to raise only $20 million by the SEDA (3,418,072 SEDA shares, and four milestone warrants for a total of 400,000 milestone warrant shares). The funding available under the SEDA without shareholder approval to exceed the 20% ceiling would be proportionately lower if the stock price were below $5.85.

**The 20% Rule**

Under the 20% rule, companies whose securities are traded on Nasdaq must obtain shareholder approval to issue common stock in a private offering (or in a series of related offerings) at a price less than the greater of the book or market value per share of the stock, if the issuance amounts to 20% or more of the common stock or 20% or more of the voting power of a company outstanding before the issuance. The SEDA shares and the initial warrant shares (and any milestone warrant shares) will be issued in private offerings, notwithstanding a registration statement being on file to cover resale of the shares.

Because the SEDA shares will be issued at a price equal to 98% of (a 2% discount to) the VWAP, and Cornell will retain 2% of each advance, the SEDA shares will be issued at a price below market value. The investor shares issued to Cornell and the Newbridge shares issued to Newbridge Securities Corporation were issued at a price above the market on April 11, 2006. The exercise price for the initial warrants issued to Cornell is above the market on April 11, 2006, but upon issuance, the exercise price for the initial warrant shares may be higher or lower than the market price. Last, the exercise price for the milestone warrants may be lower or higher than the market price on the date they are issued; in either event, their exercise price may be lower than market price when the milestone warrant shares are issued.

Therefore, the 20% rule applies only to (i) more than 3,921,072 SEDA shares; (ii) the 100,000 initial warrant shares; and (iii) and the milestone warrant shares (1,000,000 shares if five of these warrants are issued in connection with $50 million of SEDA funding).

If approved, this proposal will satisfy the requirements to issue more shares under the 20% rule, in connection with the securities to be issued to Cornell.

**Impact if Shareholder Approval is Not Obtained**

If the shareholders do not approve this proposal, and we are not successful in obtaining joint venture industry partner (or institutional) funding for exploration and development of our mineral properties during the current favorable commodity price environment, we may have to defer that work until alternative financing can be obtained. There is no assurance we would be able to obtain that financing on terms as favorable as available under the SEDA, or, it may be available, but not in time to take advantage of the favorable commodities price environment.

**Factors Affecting Current Stockholders**

While the Board of Directors has unanimously approved the issuance of more than 3,921,072 SEDA Shares, and all the initial warrant shares, and all the shares which may become issuable on future milestone warrants, and has determined that these transactions are in the best interests of all shareholders, you should consider the following in deciding whether to vote for, or against, this proposal.

***Effect of Issuing Shares Below Market Price.*** The issuance of any of the SEDA Shares (and the initial warrant shares and the milestone warrant shares) below market price may have a depressive effect on the market price by increasing the amount of shares of common stock outstanding. Declining market prices could encourage short sales, which could create more downward pressure.

Issuance of the SEDA shares and warrant shares would significantly dilute the ownership interests and proportionate voting power of current shareholders. For example, a $30,000,000 SEDA financing at a VWAP share price of $6.00 would (using the 19,605,360 shares outstanding at April 14, 2006) result in 25,305,360 shares outstanding (including the 100,000 initial warrant shares and 600,000 initial warrant shares), or a dilution of 29%.

***Significant Shareholder Voting Rights***. Cornell may at any one time own up to (but not more than) 9.9% of the company's common stock (including SEDA shares and shares issuable under the initial warrant and the milestone warrants). As a result, Cornell may have sufficient voting power to affect the outcome of future matters put to the shareholders for voting (for examples, the election of directors and the approval of a merger or sale of all or substantially all of the company's assets).

**No Dissenters' Rights of Appraisal**

Wyoming law does not provide for appraisal rights with respect to this proposal.

**Vote Required**

Under Nasdaq Marketplace Rule 4350(i)((3) and (2), the vote in favor of this proposal by the holders of at least a majority of the outstanding shares on the record date is required to approve the proposal. The 812,915 shares held by subsidiaries of the company are not allowed to vote on this proposal.

**Proposal 4: Ratification of the Appointment of Independent Auditors**

The board of directors seeks shareholder ratification of the board's appointment of Epstein, Weber & Conover, PLC, Scottsdale, Arizona, certified public accountants, to act as the auditors of our financial statements for the year ending December 31, 2006. The audit committee has recommended that the board retain this auditing firm for 2006, which audited our financial statements for the year ended December 31, 2005). The board has not determined what action, if any, would be taken should the appointment of Epstein, Weber & Conover, PLC not be ratified at the meeting.

**Principal Accounting Fees and Services**

Grant Thornton LLP billed us as follows for the year ended December 31, 2004. Grant Thornton was dismissed as the Company's audit firm in December 2004. The information for 2004 includes fees paid to the new audit firm (Epstein, Weber & Conover, PLC) in late 2004. EW&C billed us as follows for the audit of the December 31, 2005 financial statements and other audit-related work.

| | Year ended December 31, | |
|---|---|---|
| | 2005 | 2004 |
| Audit fees (a) | $ 103,830 | $ 115,300 |
| Audit-related fees(b) | $ 6,500 | $ 27,200 |
| Tax fees(c ) | | $ $33,700 |
| All other fees(d) | | $ $40,400 |

(a) Includes fees for audit of the annual financial statements and review of quarterly financial information filed with the Securities and Exchange Commission ("SEC").

(b) For assurance and related services that were reasonably related to the performance of the audit or review of the financial statements, which fees are not included in the Audit Fees category.

(c) For tax compliance, tax advice, and tax planning services, relating to any and all federal and state tax returns as necessary for the years ended December 31, 2004 and 2005.

(d) For services in respect of other reports required to be filed by the SEC and other agencies.

The audit committee approves the terms of engagement before we engage the audit firm for audit and non-audit services, except as to engagements for services outside the scope of the original terms, in which instances the services have been provided pursuant to pre-approval policies and procedures, established by the audit committee. These pre-approval policies and procedures are detailed as to the category of service and the audit committee is kept informed of each service provided. These policies and procedures, and the work performed pursuant thereto, do not include any delegation to management of the audit committee's responsibilities under the Securities Exchange Act of 1934.

This approval process was used with respect to the engagement of Epstein Weber & Conover for the audit of the 2005 financial statements and related services for the quarterly reviews of in 2005.

The percentage of services provided for Audit-Related Fees, Tax Fees and All Other Fees for 2005 (and 2004), all provided pursuant to the audit committee’s pre-approval policies and procedures, were: Audit-Related Fees 100% (66%); Tax Fees 0% (15%); and All Other Fees 0% (19%).

**Relationship with Independent Accountants**

Epstein, Weber & Conover, PLC has audited the Company's financial statements for the twelve months ended December 31, 2005. A representative of Epstein, Weber & Conover will be present at the meeting in person or by telephone to respond to appropriate questions, and will be provided the opportunity to make a statement at the meeting. There have been no disagreements between the Company and Epstein, Weber & Conover, PLC, concerning any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which were not resolved to the satisfaction of that firm.

**Copies of Our Form 10-K**

Promptly upon receiving a request from any shareholder, without charge we will send to the requester a copy of our Annual Report on Form 10-K for the twelve months ended December 31, 2005, with exhibits, as filed with the Securities and Exchange Commission. Please address your request to Daniel P. Svilar, Secretary, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501. You also may call or fax him at T 307.856.9271, F 307.857.3050.

**Exhibit Index**

| Exhibit No. | Description of Exhibit |
|---|---|
| 99.1 | Audit Committee Charter |
| 99.2 | Certification by Audit Committee |

**PROXY**
**U.S. ENERGY CORP.**

**PROXY**

KNOW ALL PERSONS: That the undersigned shareholder of U.S. Energy Corp. (the "Company") in the amount noted below, hereby constitutes and appoints Messrs. Keith G. Larsen and Harold F. Herron, or either of them with full power of substitution, as attorneys and proxies, to appear, attend and vote all of the shares of stock standing in the name of the undersigned at the Annual Meeting of the Company's shareholders to be held at the Company's Offices at 877 North 8th West, Riverton, Wyoming 82501 on **Friday, June 23, 2006 at 10:00 a.m.,** local time, or at any adjournments thereof upon the following:

**THE PROXIES WILL VOTE: (1) AS YOU SPECIFY ON THIS CARD; (2) AS THE BOARD OF DIRECTORS RECOMMENDS WHERE YOU DO NOT SPECIFY YOUR VOTE ON A MATTER LISTED ON THIS CARD, AND (3) AS THE PROXIES DECIDE ON ANY OTHER MATTER.**

**The Board of Directors Recommends You Vote in Favor of the Nominees, in Favor of Amending the Articles of Incorporation, in Favor of the Issuance of Shares to Cornell under the Nasdaq Marketplace Rule, and in Favor the Selection of Independent Auditors.**

If you wish to vote on all matters as the Board of Director recommends, please sign, date and return this card. If you wish to vote on items individually, please also mark the appropriate boxes below.

INSTRUCTION: Mark only one box for each line item.

1. **Election of Directors**:

FOR the nominee ABSTAIN
Keith G. Larsen ____ Keith G. Larsen ____

FOR the nominee ABSTAIN
John L. Larsen ____ John L. Larsen ____

**IN THE VOTING FOR DIRECTORS, YOU HAVE THE OPTION**: To vote for some nominees(s), but abstain from voting for other nominee(s). To do so, (1) check the FOR box, and (2) draw a line through the name of the nominee(s) you want to abstain from. To abstain from voting for all nominees, check the ABSTAIN box and do not draw a line through any name.
OR,
To vote for nominees by cumulating your votes, follow these steps: (1) check the FOR box; (2) multiply the number of shares you hold times 2; and (3) print the number of votes you want to cast on the line next to the nominee(s) you want to vote for, and draw a line through the nominee(s) you do not want to vote for. You may cast your votes for one nominee, or you may distribute your votes among the nominees as you wish. The total votes cast must equal the total number of shares you hold, multiplied by 2.

2. **Amendment of the Articles of Incorporation to Allow Shareholders to Remove Directors Only for Cause**:

FOR the amendment AGAINST the amendment ABSTAIN

3. **To comply with Nasdaq Marketplace Rule 4350(i)(1)(D), approve the issuance of more than 3,818,072 shares of common stock to Cornell Capital Partners, LP pursuant to the Standby Equity Distribution Agreement, plus 100,000 shares of common**

**stock on exercise of a stock purchase warrant held by Cornell Capital Partners, LP, plus 1,000,000 shares of common stock on exercise of milestone stock purchase warrants (as such milestone warrants may be issued to Cornell Capital Partners, LP**.

FOR AGAINST ABSTAIN

4. **Ratification of appointment of Epstein, Weber & Conover, PLC as independent auditors for the current fiscal year**.

FOR the appointment AGAINST the appointment ABSTAIN

5. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the Meeting.

**PROXY**
**U.S. ENERGY CORP.**

**PROXY**

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS. THE SHARES REPRESENTED HEREBY WILL BE VOTED AS PROVIDED ON THE REVERSE SIDE.**

Sign your name exactly as it appears on the mailing label below. It is important to return this Proxy properly signed in order to exercise your right to vote, if you do not attend in person. When signing as an attorney, executor, administrator, trustee, guardian, corporate officer, etc., indicate your full title as such.

(Sign on this line - joint holders may sign appropriately)

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_____ _____

(Date) (Number of Shares)

PLEASE NOTE: Please sign, date and place this Proxy in the enclosed self-addressed, postage prepaid envelope and deposit it in the mail as soon as possible.

Please check if you are planning to attend the meeting

ë û If the address on the mailing label is not correct, please provide the correct address in the following space.