US ENERGY CORP
Form 10-Q
November 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarter ended September 30, 2012 or

o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ___________ to ____________

Commission File Number: 0-6814

U.S. ENERGY CORP.
(Exact name of registrant as specified in its charter)

Wyoming (State or other jurisdiction of incorporation or organization)	83-0205516 (I.R.S. Employer Identification No.)
877 North 8th West, Riverton, WY (Address of principal executive offices)	82501 (Zip Code)
Registrant's telephone number, including area code:	(307) 856-9271

Not Applicable
(Former name, address and fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At November 6, 2012 there were issued and outstanding 27,490,978 shares of the Company's common stock, $0.01 par value.

U.S. ENERGY CORP. and SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS
(Unaudited)
(In thousands, except shares)

	September 30, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	$3,723	$12,874
Available for sale securities	156	166
Accounts receivable		
Trade	5,151	5,496
Income taxes	9	113
Commodity risk management asset	635	3
Assets held for sale	18,713	22,600
Other current assets	376	352
Total current assets	28,763	41,604
Investment	2,455	2,623
Properties and equipment		
Oil & gas properties under full cost method, net of $39,641 and $28,561 accumulated depletion, depreciation and amortization	89,010	90,942
Undeveloped mining claims	20,739	20,739
Property, plant and equipment, net	4,516	4,728
Net properties and equipment	114,265	116,409
Other assets	2,703	1,803
Total assets	$148,186	$162,439

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands, except shares)

	September 30, 2012	December 31, 2011
Current liabilities:		
Accounts payable	$3,782	$9,370
Accrued compensation	460	501
Commodity risk management liability	--	601
Current portion of debt	200	200
Liabilities held for sale	10,335	10,241
Other current liabilities	38	24
Total current liabilities	14,815	20,937
Long-term debt, net of current portion	8,200	12,200
Deferred tax liability	--	1,189
Asset retirement obligations	668	510
Other accrued liabilities	785	822
Commitment and contingencies		
Shareholders' equity		
Common stock, $.01 par value; unlimited shares		
authorized; 27,475,978 and 27,409,908		
shares issued, respectively	275	274
Additional paid-in capital	122,772	122,523
Accumulated surplus	590	3,906
Unrealized gain on marketable securities	81	78
Total shareholders' equity	123,718	126,781
Total liabilities and shareholders' equity	$148,186	$162,439

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands except per share data)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Oil, gas, and NGL production revenues:	$7,639	$8,408	$24,496	$22,112
Operating expenses:				
Oil and gas	2,514	2,643	7,965	8,677
Oil and gas depreciation, depletion and amortization	3,410	3,862	11,081	9,767
Impairment of oil and gas properties	--	--	523	--
Water treatment plant	609	497	1,554	1,424
Mineral holding costs	400	266	716	346
General and administrative	1,659	1,829	5,313	6,378
Impairment of corporate aircraft	1,756	--	1,756	--
	10,348	9,097	28,908	26,592
Loss from operations	(2,709)	(689)	(4,412)	(4,480)
Other income and expenses:				
Realized gain (loss) on risk management activities	12	(322)	(137)	(1,892)
Unrealized (loss) gain on risk management activities	(478)	1,886	1,233	2,783
(Loss) gain on the sale of assets	(21)	--	(11)	137
Equity loss in unconsolidated investment	(17)	(63)	(168)	(192)
Gain on sale of marketable securities	28	377	82	386
Miscellaneous income and (expenses)	81	(104)	169	(142)
Interest income	2	6	8	36
Interest expense	(53)	(69)	(128)	(207)
	(446)	1,711	1,048	909
Income (loss) before income taxes and discontinued operations	(3,155)	1,022	(3,364)	(3,571)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands except per share data)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Income taxes:				
Current (provision for)	--	--	(104)	--
Deferred (provision for) benefit from	1,285	(892)	1,398	1,084
	1,285	(892)	1,294	1,084
Income (loss) from continuing operations	(1,870)	130	(2,070)	(2,487)
Discontinued operations:				
Discontinued operations, net of taxes	(75)	138	15	471
Impairment on discontinued operations, net of taxes	--	--	(1,261)	--
	(75)	138	(1,246)	471
Net (loss) income	$(1,945)	$268	$(3,316)	$(2,016)
Net (loss) income per share basic and diluted				
Loss from continuing operations	$(0.07)	$--	$(0.08)	$(0.09)
Income (loss) from discontinued operations	--	0.01	(0.04)	0.02
Net (loss) income per share	$(0.07)	$0.01	$(0.12)	$(0.07)
Weighted average shares outstanding				
Basic	27,468,355	27,259,174	27,458,249	27,222,153
Diluted	27,468,355	27,862,098	27,458,249	27,222,153

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(In thousands)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net (loss) income	$(1,945)	$268	$(3,316)	$(2,016)
Other comprehensive (loss) income:				
Marketable securities, net of tax	(60)	(238)	3	(513)
Total comprehensive (loss) income	$(2,005)	$30	$(3,313)	$(2,529)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	(In thousands) For the nine months ended September 30, 2012	2011
Cash flows from operating activities:		
Net loss	$(3,316)	$(2,016)
Loss (gain) from discontinued operations	1,246	(471)
(Loss) from continuing operations	(2,070)	(2,487)
Adjustments to reconcile net loss to		
net cash provided by operations		
Depreciation, depletion & amortization	11,542	10,215
Change in fair value of commodity price		
risk management activities, net	(1,233)	(2,783)
Impairment of oil and gas properties	523	--
Impairment of corporate aircraft	1,756	--
Gain on sale of marketable securities	(82)	(386)
Equity loss from Standard Steam	168	192
Net change in deferred income taxes	(503)	(1,084)
Loss (gain) on sale of assets	11	(137)
Noncash compensation	412	1,095
Noncash services	53	--
Net changes in assets and liabilities	(1,291)	(2,198)
Net cash provided by operating activities	9,286	2,427
Cash flows from investing activities:		
Net redemption of treasury investments	--	17,843
Acquisition & development of oil & gas properties	(37,685)	(43,699)
Acquisition & development of mining properties	--	(48)
Mining property option payment	--	354
Acquisition of property and equipment	(101)	(65)
Proceeds from sale of oil and gas properties	21,475	--
Proceeds from sale of marketable securities	101	620
Proceeds from sale of property and equipment	76	147
Net change in restricted investments	(99)	37
Net cash (used in) investing activities:	(16,233)	(24,811)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	(In thousands) For the nine months ended September 30, 2012	2011
Cash flows from financing activities:		
Issuance of common stock	50	(186)
Proceeds from new debt	8,000	21,069
Repayments of debt	(12,203)	(77)
Net cash (used in) provided by financing activities	(4,153)	20,806
Net cash (used in) provided by operating activities of discontinued operations	1,949	575
Net cash used in investing activities of discontinued operations	--	(6)
Net decrease in cash and cash equivalents	(9,151)	(1,009)
Cash and cash equivalents at beginning of period	12,874	5,812
Cash and cash equivalents at end of period	$3,723	$4,803
Supplemental disclosures:		
Income tax paid	$--	$--
Interest paid	$110	$180
Non-cash investing and financing activities:		
Unrealized gain	$81	$129
Acquisition and development of oil and gas properties through accounts payable	$4,679	$5,889
Acquisition and development of oil and gas through asset retirement obligations	$133	$134

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for the periods ended September 30, 2012 and September 30, 2011 have been prepared by U.S. Energy Corp. ("we," "us," "U.S. Energy" or the "Company") in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The financial statements at September 30, 2012 include the Company's wholly owned subsidiary Energy One LLC ("Energy One"), which owns the majority of the Company's oil and gas assets. The Condensed Consolidated Balance Sheet at December 31, 2011 was derived from audited financial statements. In the opinion of the Company, the accompanying condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company for the reported periods. Entities in which the Company holds at least 20% ownership or in which there are other indicators of significant influence are accounted for by the equity method, whereby the Company records its proportionate share of the entities' results of operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the Company's December 31, 2011 Annual Report on Form 10-K. Subsequent events have been evaluated for financial reporting purposes through the date of the filing of this Form 10-Q.

2) Summary of Significant Accounting Policies

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB sets generally accepted accounting principles (U.S. GAAP) that we follow to ensure we consistently report our financial condition, results of operations, and cash flows.

For detailed descriptions of our significant accounting policies, please see Form 10-K for the year ended December 31, 2011 (Note B pages 86 to 94).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include oil and gas reserves used for depletion and impairment considerations and the cost of future asset retirement obligations. Due to inherent uncertainties, including the future prices of oil and gas, these estimates could change in the near term and such changes could be material.

Properties and Equipment

Land, buildings, improvements, machinery and equipment are carried at cost. Depreciation of buildings, improvements, machinery and equipment is provided principally by the straight-line method over estimated useful lives ranging from 3 to 45 years.

U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Continued)

Components of Property and Equipment as of September 30, 2012 and December 31, 2011 are as follows:

	(In thousands) September 30, 2012	December 31, 2011
Oil & Gas properties		
Unproved	$ 10,814	$ 17,098
Wells in progress	201	2,909
Proved	117,636	99,496
	128,651	119,503
Less accumulated depreciation depletion and amortization	(39,641)	(28,561)
Net book value	89,010	90,942
Mining properties	20,739	20,739
Building, land and equipment	8,482	8,474
Less accumulated depreciation	(3,966)	(3,746)
Net book value	4,516	4,728
Totals	$ 114,265	$ 116,409

Oil and Gas Properties

The Company follows the full cost method in accounting for its oil and gas properties. Under the full cost method, all costs associated with the acquisition, exploration and development of oil and gas properties are capitalized and accumulated in a country-wide cost center. This includes any internal costs that are directly related to development and exploration activities, but does not include any costs related to production, general corporate overhead or similar activities. Proceeds received from property disposals are credited against accumulated cost except when the sale represents a significant disposal of reserves, in which case a gain or loss is recognized. The sum of net capitalized costs and estimated future development and dismantlement costs for each cost center is depleted on the equivalent unit-of-production method, based on proved oil and gas reserves. Excluded from amounts subject to depletion are costs associated with unproved properties.

Full Cost Pool - Full cost pool capitalized costs are amortized over the life of production of proven properties. Capitalized costs at September 30, 2012 and December 31, 2011 which were not included in the amortized cost pool were $11.0 million and $20.0 million, respectively. These costs consist of exploratory wells in progress, seismic costs that are being analyzed for potential drilling locations as well as land costs related to unevaluated properties. No capitalized costs related to unevaluated properties are included in the amortization base at September 30, 2012 and December 31, 2011. It is anticipated that these costs will be added to the full cost amortization pool in the next two years as properties are proved, drilled or abandoned.

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U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Continued)

Ceiling Test Analysis - Under the full cost method, net capitalized costs are limited to the lower of unamortized cost reduced by the related net deferred tax liability and asset retirement obligations or the cost center ceiling. The cost center ceiling is defined as the sum of (i) estimated future net revenue, discounted at 10% per annum, from proved reserves, based on unescalated average prices per barrel of oil and per MMbtu of natural gas at the first day of each month in the 12-month period prior to the end of the reporting period and costs, adjusted for contract provisions and financial derivatives that hedge our oil and gas revenue and asset retirement obligations, (ii) the cost of properties not being amortized, and (iii) the lower of cost or market value of unproved properties included in the cost being amortized, reduced by (iv) the income tax effects related to differences between the book and tax basis of the crude oil and natural gas properties. If the net book value reduced by the related net deferred income tax liability and asset retirement obligations exceeds the cost center ceiling limitation, a non-cash impairment charge is required in the period in which the impairment occurs.

We perform a quarterly ceiling test for each of our oil and gas cost centers. There was only one such cost center in 2012. The reserves used in the ceiling test and the ceiling test itself incorporate assumptions regarding pricing and discount rates over which management has no influence in the determination of present value. In arriving at the ceiling test for the quarter ended September 30, 2012, we used $94.97 per barrel for oil and $2.826 per MMbtu for natural gas (and adjusted for property specific gravity, quality, local markets and distance from markets) to compute the future cash flows of our producing properties. The discount factor used was 10%.

During the three and nine months ended September 30, 2012, the Company recorded proved property impairments of $0 and $523,000, respectively, related to its oil and gas assets, primarily due to a decline in natural gas prices. There were no proved property impairments recorded during the first nine months of 2011. Management will continue to review our unproved properties based on market conditions and other changes and if appropriate, unproved property amounts may be reclassified to the amortized base of properties within the full cost pool.

Wells in Progress - Wells in progress represent the costs associated with unproved wells that have not reached total depth or have not been completed as of period end. They are classified as wells in progress and withheld from the depletion calculation. The costs for these wells are then transferred to evaluated property when the wells reach total depth and are completed and the costs become subject to depletion and the ceiling test calculation in future periods.

Mineral Properties

We capitalize all costs incidental to the acquisition of mineral properties. Mineral exploration costs are expensed as incurred. When exploration work indicates that a mineral property can be economically developed as a result of establishing proved and probable reserves, costs for the development of the mineral property as well as capital purchases and capital construction are capitalized and amortized using units of production over the estimated recoverable proved and probable reserves. Costs and expenses related to general corporate overhead are expensed as incurred. All capitalized costs are charged to operations if we subsequently determine that the property is not economical due to permanent decreases in market prices of commodities, excessive production costs or depletion of the mineral resource. Mineral properties at September 30, 2012 and December 31, 2011 reflect capitalized costs associated with our Mt. Emmons molybdenum property near Crested Butte, Colorado.

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U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Continued)

Our carrying balance in the Mt. Emmons property at September 30, 2012 and December 31, 2011 is as follows:

	(In thousands)	
	September 30, 2012	December 31, 2011
Costs associated with Mount Emmons beginning of year	$ 20,739	$ 21,077
Development costs	--	16
Option payment from Thompson Creek	--	(354)
Costs at the end of the period	$ 20,739	$ 20,739

Derivative Instruments

The Company uses derivative instruments, typically fixed-rate swaps and costless collars, to manage price risk underlying its oil and gas production. All derivative instruments are recorded in the consolidated balance sheets at fair value. The Company offsets fair value amounts recognized for derivative instruments executed with the same counterparty. Although the Company does not designate any of its derivative instruments as a cash flow hedge, such derivative instruments provide an economic hedge of our exposure to commodity price risk associated with forecasted future oil and gas production. These contracts are accounted for using the mark-to-market accounting method and accordingly, the Company recognizes all unrealized and realized gains and losses related to these contracts currently in earnings and they are classified as gain (loss) on derivative instruments, net in our consolidated statements of operations. The Company may also use puts, calls and basis swaps in the future.

The Company's Board of Directors sets all risk management policies and reviews the status and results of derivative activities, including volumes, types of instruments and counterparties on a quarterly basis. These policies require that derivative instruments be executed only by the Chief Executive Officer or President. The master contracts with approved counterparties identify the Chief Executive Officer and President as the only Company representatives authorized to execute trades. See Note 6, Commodity Price Risk Management, for further discussion.

Revenue Recognition

The Company records oil and natural gas revenue under the sales method of accounting. Under the sales method, we recognize revenues based on the amount of oil or natural gas sold to purchasers, which may differ from the amounts to which we are entitled based on our interest in the properties. Natural gas balancing obligations as of September 30, 2012 were not significant.

Revenues from real estate operations are reported on a gross revenue basis and are recorded at the time the service is provided.

U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Continued)

Recent Accounting Pronouncements

On January 1, 2012, the Company adopted Accounting Standards Update No. 2011-05 (“ASC No. 2011-05”), an update to ASC Topic 220 issued by the FASB that states that an entity that reports items of other comprehensive income has the option to present the components of comprehensive income in either one continuous financial statement, or two consecutive financial statements, including reclassification adjustments. Subsequent to the issuance of the authoritative guidance, the FASB issued additional authoritative accounting guidance (“ASC No. 2011-12”) that effectively deferred the requirement to present the reclassification adjustments on the face of the financial statements, as well as the requirement to present the individual components of other comprehensive income for interim periods. The Company has elected to present a separate statement of comprehensive income, including the individual components, titled Condensed Consolidated Statements of Comprehensive Loss, as part of Item 1 to this report.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities (“ASU 2011-11”). The objective of ASU 2011-11 is to require an entity to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position. ASU 2011-11 is effective for interim and annual reporting periods beginning on or after January 1, 2013 and should be applied retrospectively. The adoption of this standard is not expected to have an impact on the Company’s consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”), which provides amendments to FASB ASC Topic 820, Fair Value Measurement. The objective of ASU 2011-04 is to create common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards (“IFRS”). The amendments clarify existing fair value measurement and disclosure requirements and make changes to particular principles or requirements for measuring or disclosing information about fair value measurements. These amendments are not expected to have a significant impact on companies applying GAAP. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of this standard did not have an impact on the Company’s consolidated financial statements other than additional disclosures.

3) Mineral Property Transactions

Bakken/Three Forks Shale Sale. On January 24, 2012 (but effective December 1, 2011), we sold an undivided 75% of our undeveloped acreage with Zavanna, LLC (“Zavanna”) in the Yellowstone and SEHR prospects to GeoResources, Inc. (56.25%) and Yuma Exploration and Production Company, Inc. (18.75%) for $16.7 million and $1.4 million in reimbursed well costs. These amounts were recorded as credits to our full cost pool. In addition we transferred $5.3 million in costs from unevaluated properties to proved properties as a result of this sale. Under the terms of the agreement, we retained the remaining 25% of our interest in the undeveloped acreage and our original working interest in the initial 10 developed wells in the prospects. Our average working interest in the remaining locations will be approximately 8.75% and net revenue interests in new wells after the sale are expected to be in the range of 6.7375% to 7.0%, proportionately reduced depending on Zavanna’s actual working interest percentages.

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U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Continued)

Woodbine Acquisition. In May 2012, we entered into a participation agreement with a private entity, Mueller Exploration, Inc. ("Mueller") to participate in the Woodbine Sub-Clarksville 7 Project located in Anderson and Cherokee Counties, Texas. Under the terms of the agreement, we acquired a 26.5% initial working interest (19.6% net revenue interest) in approximately 6,766 gross acres (1,274 net acres to USE) for $1.7 million. The promoted amount covers our portion of the costs for land, geological and geophysical work, as well as all dry hole costs for an initial test well in each of the seven prospects. Upon payout of our initial well costs in each unit, our interest will be reduced to a 19.8% working interest (14.7% net revenue interest). Future infill drilling will be on a heads up basis, and our interest will be a 19.8% working interest (14.7% net revenue interest).

Montana Acreage Sale. On June 8, 2012, we sold an undivided 87.5% of our acreage in Daniels County, Montana to a third party for $3.7 million. This amount was recorded as a credit to our full cost pool. In addition we transferred $1.0 million in costs from unevaluated properties to proved properties as a result of this sale. Under the terms of the agreement, we retained a 12.5% working interest in the acreage and reserved overriding royalty interests (“ORRI”) in leases we owned that had in excess of 81% NRI. The purchaser also committed to drill a vertical test well to depths sufficient to core the Bakken and Three Forks formations on or before December 31, 2015. We delivered an 80% NRI to the purchaser and a 1% ORRI to a land broker. We also paid the land broker a 10% commission for the cash consideration paid by the purchaser.

Bakken/Three Forks Asset Package Acquisition. On September 21, 2012, but effective July 1, 2012, we acquired interests in 27 producing Bakken and Three Forks formation wells and related acreage in McKenzie, Williams and Mountrail Counties of North Dakota for $2.3 million after adjusting for related revenue and operating expenses from the effective date through September 21, 2012. Under the terms of the agreement, we acquired working interests in 23 drilling units ranging from less than 1% to approximately 5%, with an average working interest of 1.45%. All acreage is currently held by production and produces approximately 47 BOE/day net to the Company.

4) Assets Held for Sale

In January 2011, we made the decision to sell our Remington Village multifamily project in Gillette, Wyoming and plan to use the proceeds to further the development of our oil and gas business. On July 9, 2012, the Company entered into a Letter of Intent (“LOI”) to sell Remington Village for $16.0 million. As a result of the anticipated sale amount the Company recorded a non-cash impairment of $2.0 million during the second quarter of 2012 to adjust the carrying value of the project to the expected sale value. Ultimately, we could not reach mutually agreeable terms for the sale and the LOI was terminated. We continue to market the property for sale.

As of September 30, 2012, the accompanying condensed consolidated balance sheets include approximately $16.2 million in book value of assets held for sale related to Remington Village, net of accumulated depreciation, and $10.2 million in liabilities held for sale. Because Remington Village has been classified as an asset held for sale, scheduled depreciation of $560,000 for the first nine months of 2012 and $473,000 for the first nine months of 2011 was not recorded. Remington is pledged as collateral on a $10.0 million note. At such time as Remington is sold, the debt balance will be retired.

Operations related to Remington Village are shown in discontinued operations on the accompanying condensed consolidated statements of operations.

U.S. ENERGY CORP.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Continued)

In September 2012, we made the decision to sell our corporate aircraft and related facilities to cut overhead costs and plan to use the proceeds to further the development of our oil and gas business, reduction of debt or for general corporate purposes. As of September 30, 2012 the accompanying consolidated balance sheets include approximately $2.4 million in book value of assets held for sale, net of accumulated depreciation. Because the aircraft and related facilities have been classified as an asset held for sale, we will no longer record any scheduled depreciation. At September 30, 2012, the Company recorded a non-cash impairment of $1.8 million to adjust the carrying value to the expected sale value.

The following is a reconciliation of the total assets held for sale:

	(In thousands)	
	September 30, 2012	December 31, 2011
Assets held for sale		
Remington Village	$ 16,236	$ 18,132
Corporate aircraft and facilities	2,477	4,468
	$ 18,713	$ 22,600

5) Asset Retirement Obligations

We record the fair value of the reclamation liability for our inactive mining properties and our operating oil and gas properties as of the date that the liability is incurred. We review the liability each quarter and determine if a change in estimate is required as well as accrete the discounted liability on a quarterly basis for the future liability. Final determinations are made during the fourth quarter of each year. We deduct any actual funds expended for reclamation during the quarter in which it occurs.

The following is a reconciliation of the total liability for asset retirement obligations:

	(In thousands)
	September 30,