

US ENERGY CORP
Form DEF 14A
April 25, 2014

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

SCHEDULE 14A

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

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

Check the appropriate box:

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

U.S. Energy Corp.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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| 1) | Title of each class of securities to which transaction applies: |
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- 3) Filing Party:
- 4) Date Filed:

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U.S. ENERGY CORP.
877 North 8th West
Riverton, Wyoming 82501

Notice of Annual Meeting of Shareholders

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

Date: Friday, June 20, 2014 Time: 8:30 AM MDT

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

Purposes:

1. Elect the three nominees for directors identified in the accompanying proxy statement (Jerry W. Danni, Leo A. Heath and James B. Fraser) to serve until the third succeeding annual meeting of shareholders (to be held in 2017) and their successors have been duly elected or appointed and qualified;
2. Ratify the appointment of Hein & Associates LLP as our independent auditor for fiscal year 2014;
3. To approve, on an advisory basis, the 2013 compensation of the Company's named executive officers; and
4. For any other proper purpose in accordance with the Bylaws of the Company.

Record Date: April 25, 2014. The stock transfer books will not be closed.

A copy of our Annual Report for the fiscal year ended December 31, 2013 is available at www.usnrg.com. Please read this information carefully before voting your proxy.

The Securities and Exchange Commission ("SEC") requires companies to furnish proxy materials over the Internet, which reduces environmental impact as well as printing and mailing costs. Unless otherwise requested by the shareholder, we are mailing to each shareholder a Notice of Internet Availability of Proxy Materials (the "Notice of Availability") instead of mailing paper copies of the proxy materials. The Notice of Availability contains instructions on how to access the proxy materials on the Internet, and also on how to request a paper copy of the proxy materials. All shareholders who do not receive a Notice of Availability will receive a paper copy of the proxy materials by mail.

Whether or not you plan to attend the meeting, please take the time to vote:

- Ø Via the Internet – Go to the website shown on your proxy card or the Notice of Availability;
- Ø Via Telephone – Call the toll free number shown on the Notice of Availability; or
- Ø Via mail – Complete, sign and date your proxy card and mail it in the postage paid envelope.

If you owned shares in the Company at the close of business on April 25, 2014, you may attend and vote at the meeting. The names of shareholders of record entitled to vote at the meeting will be available for review at the meeting and during regular business hours at our headquarters in Riverton, Wyoming.

If you wish to attend the meeting and vote in person, but you hold your shares through a broker, or other nominee (i.e., your shares are held in "street name"), contact your broker or nominee promptly to obtain a "legal proxy" which you must bring to the meeting in order to vote in person at the meeting.

By Order of the Board of Directors
Dated: April 25, 2014
Steven R. Youngbauer
Secretary

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U.S. ENERGY CORP.

877 North 8th West
Riverton, Wyoming 82501

PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS
ON FRIDAY, JUNE 20, 2014

This proxy statement is provided in connection with a solicitation of proxies by the Board of Directors (the “Board”) of U.S. Energy Corp. (“U.S. Energy”, the “Company”, “we”, “our”, or “us”) for the annual meeting of shareholders to be held Friday, June 20, 2014, at 8:30 am MDT at the corporate offices of U.S. Energy, 877 North 8th West, Riverton, Wyoming 82501 (the “Annual Meeting”), and at any adjournments of the meeting. On or about May 9, 2014, we will begin mailing the Notice of Availability, and we will begin mailing a full set of proxy materials to shareholders who had previously requested delivery of the materials in paper copy.

GENERAL

Who Can Vote

Only holders of our common stock at the close of business on the record date of April 25, 2014 are entitled to receive notice of and to vote at the Annual Meeting. As of April 25, 2014, there were 27,765,514 shares of our common stock issued and outstanding.

You may hold your shares “of record” or in “street name.” The difference between shareholders of record and street name holders is:

- **Shareholder of Record.** If your shares are registered directly in your own name with our transfer agent, Computershare Trust Company, Inc., you are considered to be the holder of record of those shares and you may vote directly via internet, by telephone, by mail or in person.
- **Street Name Shareholder.** If your shares are held in a stock brokerage account or by a broker or other nominee, you are considered the “street name” holder, and the beneficial owner, of those shares and you have the right to direct your broker or nominee how to vote. However, since you are not the shareholder of record, you may not vote those shares in person at the Annual Meeting unless you obtain a “legal proxy,” which you must bring to the meeting in order to vote in person at the meeting.

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 proxies delivered to us prior to the meeting. Shares of common stock present at the meeting that abstain/withhold from voting, or that are the subject of “broker non-votes,” will be counted as present for determining a quorum.

New York Stock Exchange (“NYSE”) Rule 452 governs discretionary voting by brokers of shares held in street name when beneficial owners have not instructed how such shares should be voted. Because the rule governs all brokers who are members of the NYSE, the amendment affects all public companies that have shares held in street name, not just companies listed on the NYSE. Under the rule, such brokers have discretionary authority to vote street name

shares on “routine” items such as the

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ratification of the Company's appointment of auditors, but not on other matters, including the election of directors. Of the matters to be presented at the Annual Meeting, only the ratification of auditors will be considered a routine matter for purposes of the rule. Accordingly, if your broker does not receive instructions from you, your broker will not be able to vote your shares on any of the other matters, and a "broker non-vote" will occur with respect to those matters.

You are entitled to one vote for each share of U.S. Energy 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.

On Proposal 1, Election of Directors, nominees in a number equal to the seats to be filled on the Board who receive a plurality of votes cast will be elected as directors. If you withhold your shares from voting, your shares will not be counted for any director. Withheld votes and broker non-votes will have no effect on the election of directors.

Each of the other proposals, and any other matter which properly comes before the meeting in accordance with the Bylaws of the Company, will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions are not considered votes cast and they will have no effect.

How Your Proxy Will Be Voted; Recommendation of the Board

The Board is soliciting a proxy to provide you with the opportunity to vote on all matters scheduled to come before the meeting (as stated in the Notice of Annual Meeting which accompanies this Proxy Statement), whether or not you attend in person.

The Board recommends you vote as follows on the three proposals stated in the Proxy Statement:

- For Proposal 1 - the nominees for director are Jerry W. Danni, Leo A. Heath and James B. Fraser;
- For Proposal 2 - ratification of appointment of Hein & Associates LLP as the independent auditor of the Company for fiscal year 2014; and
- For Proposal 3 – to approve, on an advisory basis, the 2013 compensation of the Company's named executive officers.

Granting Your Proxy

Your shares will be voted as you specify if you properly complete and return the appropriate form of proxy. If you make no specifications, your proxy will be voted in favor of all the proposals listed above.

We do not expect any matters to be presented for action at the meeting other than the matters stated in the Notice of Annual Meeting accompanying this Proxy Statement. However, as permitted by SEC Rule 14a-4(c), the proxy will confer discretionary authority with respect to any other matter that may properly come before the meeting. The persons named as proxies intend to vote in accordance with their judgment on any such matters.

Revoking Your Proxy

If you are a shareholder of record and 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. If you are a street name shareholder and you vote by proxy, you may change your vote by submitting new voting instructions to your broker or other nominee in accordance with that entity's procedures.

Proxy Solicitation

We will pay all expenses of our solicitation of proxies for the Annual Meeting. In addition to solicitations by mail, arrangements have been made for brokers and other nominees to send proxy materials to beneficial owners, and we will reimburse those brokers and other nominees 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; they will not be paid for these services.

Requirement and Deadlines for Shareholders to Submit Proxy Proposals

Under SEC rule 14a-8, if a shareholder wants us to include a proposal under that rule to be included in our proxy statement and presented at the annual meeting of shareholders to be held in June 2015, information about the proposal must have been received by us in writing at least 120 calendar days in advance of the first anniversary of the delivery of these proxy materials, or December 31, 2014, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501; Attention: Steven R. Youngbauer, Secretary. For a shareholder proposal to be considered at our next annual meeting that will not be included in our proxy statement (including director nominations), written notice of the proposal must be delivered to the Company's secretary in accordance with the Company's Bylaws at least 90 calendar days before the date of such meeting

Copies of Our Form 10-K

Promptly upon receiving a request from any shareholder, we will send to the shareholder without charge a copy of our Annual Report on Form 10-K for the year ended December 31, 2013, with exhibits, as filed with the SEC. Please address your request to Steven R. Youngbauer, Secretary, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501. You also may contact Mr. Youngbauer by telephone at (307) 856-9271 or fax at (307) 857-3050.

CORPORATE GOVERNANCE

Board of Directors, Audit, Compensation and Nominating Committees

General

We are committed to sound corporate governance principles. As evidence of this commitment, the Board has adopted charters for its committees and a Code of Ethics. These documents, along with the Company's Articles of Incorporation and Bylaws, provide the framework for our corporate governance. The charters of the Audit Committee, the Compensation Committee, and the Nominating Committee may be viewed at our web site (www.usnrg.com), at the tab "Investor," then go to "Corporate Governance." The Code of Ethics also may be viewed at that location. If these documents are amended (or if the Code of Ethics is waived in a manner requiring disclosure under SEC rules), the amendments (and the occurrence of the waiver of the Code of Ethics), will be disclosed on the

website as required by the SEC. Copies of each of these documents are available without charge to any person who requests them, by sending a request to U.S. Energy Corp., Attn: Steven R. Youngbauer, Secretary, 877 North 8th West, Riverton, Wyoming 82501.

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Board and Committee Independence

The Board is comprised of a majority of independent directors. Specifically, the Board has determined that Thomas R. Bandy, Stephen V. Conrad, Jerry W. Danni, Leo A. Heath and James B. Fraser (if elected by the shareholders) are independent under applicable NASDAQ rules. In addition, the Audit Committee, the Compensation Committee, and the Nominating Committee are each comprised solely of independent directors as required under the applicable requirements of NASDAQ and the SEC.

Board Leadership

U.S. Energy combines the roles of Chief Executive Officer and Chairman of the Board, with Keith G. Larsen serving in both roles. Keith G. Larsen is responsible for setting the strategic direction for the Company, and sets the agenda for and presides over Board meetings. The Company believes that the combined position of the Chairman and CEO has the following advantages: (i) it ensures a unity of command and a single point of accountability and responsibility, (ii) it eliminates any potential conflicts between the CEO and the Chairman, (iii) it removes any internal or external ambiguities as it pertains to the ultimate spokesperson for the Company and (iv) it provides for a more informed and expeditious decision-making process. Mark J. Larsen, also a director and President and Chief Operating Officer, is primarily responsible for execution of strategies and daily operations.

Meetings of the Board

The Board consists of seven members and they have primary responsibility for directing management of the business. During 2013, the Board held eleven formal meetings, which were attended by all of the directors serving on the Board, except for Robert Scott Lorimer, who missed two meetings and Thomas R. Bandy, who missed one meeting.

Attendance of Annual Meetings by Directors

Directors are encouraged, but not required, to attend annual meetings. All of the directors attended the June 28, 2013 annual meeting of shareholders.

Communications from Shareholders to the Board

The independent directors have established a process for collecting and organizing communications from shareholders. Shareholders may send communications to the Board by addressing their communications to Keith G. Larsen, Chief Executive Officer and Chairman of the Board, or Mark J. Larsen, President and Chief Operating Officer, at 877 North 8th West, Riverton, Wyoming 82501. Pursuant to this process, Keith G. Larsen and Mark J. Larsen determine which of the communications address matters of substance and which should be considered by all directors, and 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 retains our independent outside audit firm and recommends selection of the internal audit firm. It also exercises general oversight of the activities of our independent auditors, principal

financial officer, principal

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accounting officer, accounting employees and related matters. The Chairman of the Audit Committee is Stephen V. Conrad, who is a Certified Public Accountant. The Board has determined that Mr. Conrad is an audit committee financial expert as defined in Item 407(d) of SEC Regulation S-K. Other members of the Audit Committee are Jerry W. Danni and Leo A. Heath. All members of the Audit Committee are independent directors under applicable NASDAQ and SEC rules.

The Audit Committee met five times in 2013. All Committee members attended each meeting in person or by telephone, except for Jerry Danni who missed one meeting. The Committee reviewed our financial statements for each quarter in 2013 and the year as a whole and discussed the financial statements with management and our independent audit firm. After the May 7, 2013 quarterly meeting, the Committee met in executive session with our independent audit firm. The Committee also discussed with the independent audit firm the various matters required to be discussed in SAS 61 (Codification of Statements on Auditing Standards, AU 380). Based on the foregoing, the Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the twelve months ended December 31, 2013. During the year ended December 31, 2013, the Audit Committee Chairman also met independently of management with the firm that performs internal control testing for the Company pursuant to Section 404 of the Sarbanes-Oxley Act. The Committee also reviews and reassesses the adequacy of the Audit Committee Charter on an annual basis.

Compensation Committee

The Company has a Compensation Committee, the members of which are Jerry W. Danni (Chairman), Thomas R. Bandy and Leo A. Heath. These members are independent under applicable criteria established by NASDAQ. This Committee met formally on three occasions in 2013, and discussed compensation matters informally several times during the year. All Compensation Committee members attended all meetings of the Committee during 2013 either in person or by phone.

The Compensation Committee reviews and recommends to the Board compensation packages for the officers of the Company. Please see “Executive Compensation – Compensation Discussion and Analysis.”

Compensation Committee Interlocks and Insider Participation

There were no Compensation Committee interlocks during fiscal year 2013.

Nominating Committee

The Company has a Nominating Committee, the members of which are Leo A. Heath (Chairman) and Thomas R. Bandy. Both are independent directors under NASDAQ rules. The Nominating Committee is responsible for identifying and recommending to the Board nominees for election to the Board. The Nominating Committee met one time during 2013 with both members attending either in person or by telephone. The Committee also interviewed potential nominees for a director vacancy.

Executive Committee

The Executive Committee helps implement the Board’s overall directives as necessary. Members include Keith G. Larsen (Chairman), Mark J. Larsen and Jerry W. Danni. The Executive Committee usually does not conduct formal meetings. The Executive Committee did not hold any meetings in 2013.

Hedging Committee

On September 6, 2012, the Company established a Hedging Committee to review and approve the use of all swap agreements. Members include Mark J. Larsen (Chairman), Keith G. Larsen and Thomas R. Bandy. The Hedging Committee has determined that the Company qualifies as an “end-user” of commodity derivatives for purposes of compliance with the Commodity Exchange Act.

Risk Oversight

The Company faces various risks in its business, including liquidity and operational risks. We limit certain risks by not guaranteeing financial instruments or obligations of third parties. Liquidity risk is encountered in the context of balancing contractual commitments to spend capital, and also is involved in the Company’s hedging commitments for oil and gas price protection. Any change in our hedging strategy will require the approval of the Board.

General business operations are managed by the executive officers, who report to the Board as needed on developments in approved areas. Operations are run in conformity with the annual budget presented by management and approved, with appropriate modifications as needed throughout the year, by the Board. However, material budget variations (for example, a proposed acquisition or disposition of a significant property or an entry into a significant joint venture) are subject to prior approval by the Board, even if the category and fund allocation generally had been previously approved by the Board. In these situations, the Chairman will call a Board meeting to discuss specific terms, costs and variables, and associated risks, before committing the Company. We believe this process provides the Board with a continuing and key role in risk oversight.

Compensation Risk Assessment

We do not believe that our compensation programs encourage excessive risk taking. Risk mitigating factors of our compensation program and Board governance include:

- A mix of short-term and long-term incentives designed to incentivize creation of long-term shareholder value;
 - Annual grants of Company stock to align executives’ interests with those of our shareholders;
- Caps on awards under our bonus programs, along with the use of targeted performance goals designed to emphasize metrics that lead to long-term shareholder value creation; and
 - The use of a Hedging Committee to review and approve all swap agreements.

Advance Notice Requirements for Shareholder Proposals

For Proposed Nominees to the Board

The Nominating Committee considers and recommends to the Board individuals who may be suitable to be nominated to serve as directors. All director candidates recommended by a shareholder, or a director or officer will be evaluated by the Nominating Committee (which is comprised solely of independent directors) in good faith.

For the Annual Meeting scheduled for June 20, 2014, the Nominating Committee did not receive a request from any shareholder for consideration of a nominee candidate.

For Other Shareholder Proposals

For any other matter to be considered as a proper purpose for consideration by the shareholders at an annual or special meeting, each of the conditions set forth in the Company's Bylaws must be satisfied in order for such matter to be considered at the meeting.

Principal Holders of Voting Securities and Ownership by Officers and Directors

The following table shows beneficial ownership of shares of our common stock by each director, director nominee, and named executive officer, and all directors and executive officers as a group and all beneficial owners of more than 5% of the outstanding shares of our common stock known to us as of April 25, 2014. This information is based on SEC reports or as otherwise known by us. Beneficial ownership includes shares not outstanding but deemed beneficially owned by virtue of the ability to acquire such shares within 60 days of April 25, 2014.

Except as noted, each holder exercises sole voting and dispositive powers over the shares listed opposite the holder's name, except for shares subject to forfeiture and those held in ESOP accounts established for the holder's benefit.

The ESOP Trustees, Keith G. Larsen and Mark J. Larsen, 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; those shares are reported for each holder having a shared interest.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership				Total Beneficial Ownership	Percent of Class (1)
	Voting Rights		Dispositive Rights			
	Sole	Shared	Sole	Shared		
Name and Position of Directors and Named Executive Officers						
Keith G. Larsen *(2)	923,682	441,513	801,031	1,244,307	2,167,989	7.7%
Mark J. Larsen *(3)	836,115	--	727,045	802,794	1,638,909	5.8%
Thomas R. Bandy *(4)	3,334	--	3,334	--	3,334	0.0%
Stephen V. Conrad *(5)	80,000	--	80,000	--		