

US ENERGY CORP
Form DEF 14A
April 28, 2015

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)

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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 2015 Annual Meeting of Shareholders:

Date: Friday, June 19, 2015 Time: 8:30 AM MDT

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

To elect the two nominees for directors identified in the accompanying proxy statement (Keith G. Larsen and Thomas R. Bandy) to serve until the third succeeding annual meeting of shareholders (to be held in 2018) and their successors have been duly elected or appointed and qualified;

Purposes: 1. To ratify the appointment of Hein & Associates LLP as our independent auditor for fiscal year 2015; To approve amendments to the 2012 Equity and Performance Incentive Plan (the "2012 Equity Plan") to increase the shares available for issuance by 2,000,000 and to include independent members of the Board as potential award recipients;

2. To approve, on an advisory basis, the 2014 compensation of the Company's named executive officers; and

3. For any other proper purpose in accordance with the Bylaws of the Company.

4. To approve, on an advisory basis, the 2014 compensation of the Company's named executive officers; and

5. For any other proper purpose in accordance with the Bylaws of the Company.

Record Date: April 24, 2015. The stock transfer books will not be closed.

A copy of our Annual Report for the fiscal year ended December 31, 2014 is available at www.usnrg.com. Please read this information carefully before voting your proxy.

The Securities and Exchange Commission ("SEC") allows 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 were a shareholder of record of the Company at the close of business on April 24, 2015, 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 28, 2015 Bryon G. Mowry
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 19, 2015

This proxy statement (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 on Friday, June 19, 2015, 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 8, 2015, 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 24, 2015 are entitled to receive notice of and to vote at the Annual Meeting. As of April 24, 2015, there were 28,388,372 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 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 nominated for election, 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 four proposals stated in the Proxy Statement:

·For Proposal 1 - the nominees for director are Keith G. Larsen and Thomas R. Bandy;

·For Proposal 2 - ratification of appointment of Hein & Associates LLP as the independent auditor of the Company for fiscal year 2015;

·For Proposal 3 – to approve an amendment to the 2012 Equity and Performance Incentive Plan (the "2012 Equity Plan") to increase the shares available for issuance by 2,000,000 and to include independent members of the Board as potential award recipients;

·For Proposal 4 – to approve, on an advisory basis, the 2014 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 each proposal 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 receive additional compensation for these services.

Requirement and Deadlines for Shareholders to Submit 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 2016, 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 January 8, 2016, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501; Attention: Bryon G. Mowry, Secretary. For a shareholder proposal to be considered at our next annual meeting that will not be included in our proxy statement for that meeting (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, 2014, with exhibits, as filed with the SEC. Please address your request to Bryon G. Mowry, Secretary, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501. You also may contact Mr. Mowry 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 "Investors," 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: Bryon G. Mowry, Secretary, 877 North 8th West, Riverton, Wyoming 82501.

Board and Committee Independence

The Board is comprised of a majority of independent directors. Specifically, the Board has determined that Stephen V. Conrad, Jerry W. Danni, Leo A. Heath, James B. Fraser, and Thomas R. Bandy (an incumbent director nominee) 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. The Company does not have a lead independent director.

Meetings of the Board

The Board consists of seven members and they have primary responsibility for directing management of the business. During 2014, the Board held seven formal meetings, which were attended by all of the directors serving on the Board, except 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 20, 2014 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 Steven D. Richmond, Chief Financial Officer and Treasurer, at 877 North 8th West, Riverton, Wyoming 82501. Pursuant to this process, Keith G. Larsen and Steven D. Richmond determine which of the communications address matters of substance that should be considered by all directors, and sends 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

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 2014. All Committee members attended each meeting in person or by telephone. The Committee reviewed our financial statements for each quarter in 2014 and the year as a whole and discussed the financial statements with management and our independent audit firm. After the November 4, 2014 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 Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 16,. 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, 2014. During the year ended December 31, 2014, 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, Stephen V. Conrad, James B. Fraser and Leo A. Heath. These members are independent under applicable criteria established by NASDAQ. This Committee met formally on four occasions in 2014, and discussed compensation matters informally several times during the year. All Compensation Committee members attended all meetings of the Committee during 2014 either in person or by phone.

The Compensation Committee reviews and recommends to the Board compensation packages for the officers of the Company. The Compensation Committee may delegate to a subcommittee or to the Chief Executive Officer or other officer of the Company such of its duties and responsibilities as the Committee deems to be in the best interests of the Company, provided such delegation is not prohibited by law or NASDAQ rule. Please see "Executive Compensation – Compensation Discussion and Analysis."

Compensation Committee Interlocks and Insider Participation

There were no Compensation Committee interlocks during fiscal year 2014.

Nominating Committee

The Company has a Nominating Committee, the members of which are Leo A. Heath (Chairman), Thomas R. Bandy, Stephen V. Conrad, Jerry W. Danni and James B. Fraser. These members are independent directors under NASDAQ rules. The Nominating Committee is responsible for identifying and recommending to the Board nominees for election to the Board. This process involves consulting with the Company's CEO to identify qualified candidates with expertise in one of the business areas of the Company, including financial, oil and gas, mining/geology and investment banking expertise. Once identified, the Nominating Committee reviews the qualifications (including capability, availability to serve, conflicts of interest, and other relevant factors) of any identified potential director candidate and where necessary assists in interviewing such candidate. It recommends to the Board appropriate nominees to election to be included in the Company's proxy statement for the annual shareholders meeting. The Nominating Committee met once during 2014 with all members attending either in person or by telephone.

Executive Committee

The Executive Committee helps implement the Board's overall directives as necessary. Members include Keith G. Larsen (Chairman) and Jerry W. Danni. The Executive Committee does not regularly conduct formal meetings. The Executive Committee did not hold any meetings in 2014.

Hedging Committee

On September 6, 2012, the Company established a Hedging Committee to review and approve the use of all swap agreements. Members include Keith G. Larsen (Chairman), Thomas R. Bandy and James B. Fraser.

Risk Oversight

The Company faces various risks in its business, including liquidity and operational risks. 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;
- 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 hedging transactions.

Shareholder Recommendations

The Nominating Committee (which is comprised solely of independent directors) 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 in good faith. The Nominating Committee considers diversity in identifying nominees for director, but has not adopted a formal written diversity policy. The charter of the Nominating Committee sets forth a procedure for shareholders to follow in recommending director candidates to the Committee. Pursuant to the charter, a nominating shareholder should provide a written request that the Committee consider a particular candidate at least 150 days prior to the meeting at which the candidate would be elected. The request must include specified information about the candidate, including a discussion of his or her background and experience, and related matters, and the candidate must have certain attributes and experience, in each case as described in the charter.

For the Annual Meeting scheduled for June 19, 2015, the Nominating Committee did not receive a request from any shareholder for consideration of a director nominee candidate.

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 24, 2015. 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 24, 2015.

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 Steven D. Richmond, 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.

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Name of Beneficial Owner Name and Position of Directors and Named Executive Officers	Amount and Nature of Beneficial Ownership				Total	
	Voting Rights		Dispositive Rights		Beneficial Ownership	Percent of Class ⁽¹⁾
	Sole	Shared	Sole	Shared		
Keith G. Larsen	*(2) 1,063,587	--	822,698	955,026	2,018,613	6.8%
Mark J. Larsen	*(3) 855,045	--	727,737	--	855,045	2.9%
Thomas R. Bandy	*(4) 9,667	--	9,667	--	9,667	0.0%
Stephen V. Conrad	*(5) 85,000	--	85,000	--	85,000	0.3%
Jerry W. Danni	*(6) 48,000	--	48,000	--	48,000	0.2%
James Fraser	*(7) 5,000	--	5,000	--	5,000	0.0%
Leo A. Heath	*(8) 30,000	--	30,000	--	30,000	0.1%
Steven D. Richmond	** (9) 323,962	--	171,829	955,026	1,278,988	4.3%
Bryon G. Mowry	** (10) 329,432	--	175,196	--	329,432	1.1%
David A. Veltri	** (11) 100,000	--	--	--	100,000	0.3%
Steven R. Youngbauer	** (12) 536,174	--	536,174	--	536,174	1.8%
All officers and directors as a group (eleven people)	3,385,867	--	2,611,301	1,910,052	5,295,919	17.8%

Name and Address of Stockholders

Owning More than 5%

BlackRock, Inc. 1,735,232 1,735,232 1,735,232 6.2%
55 East 52nd Street
New York, NY 10022

(1) Percent of class is computed by dividing the number of shares beneficially owned plus any shares the reporting person has a right to acquire within 60 days of the measurement date, by the number of shares outstanding plus the shares such reporting person has a right to acquire within 60 days of the measurement date.

(2) Mr. Keith Larsen exercises sole voting rights over 476,031 directly held shares, 140,889 shares held in an ESOP account established for his benefit, 100,000 restricted shares and 346,667 shares underlying options. He exercises sole dispositive rights over 476,031 directly held shares, and 346,667 shares underlying options. He exercises shared dispositive rights over 955,026 shares in his capacity as an ESOP Trustee with the other ESOP Trustee.

(3) Mr. Mark Larsen exercises sole voting rights over 287,737 shares held directly, 127,308 shares held in the ESOP account established for his benefit, and 440,000 underlying options. He exercises sole dispositive rights over 287,737 shares held directly and 440,000 shares underlying his options.

(4) Mr. Bandy exercises sole voting and dispositive rights over 3,334 directly owned shares and 27,666 shares underlying options.

(5) Mr. Conrad exercises sole voting and dispositive rights over 60,000 directly owned shares and 37,000 shares underlying options.

(6) Mr. Danni exercises sole voting and dispositive rights over 10,000 directly held shares and 56,000 shares underlying options.

(7) Mr. Fraser exercises sole voting and dispositive rights over 5,000 directly owned shares and over 12,000 shares underlying options.

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(8) Mr. Heath exercises sole voting and dispositive rights over 2,000 directly owned shares and 46,000 shares underlying options.

(9) Mr. Richmond exercises sole voting rights over 33,495 shares held directly, 80,817 shares held in the ESOP account established for his benefit, 71,316 restricted shares and 251,316 shares underlying options. He exercises sole dispositive rights over the 33,495 shares directly held and 251,316 shares underlying his options. He exercises shared dispositive rights over 955,026 shares in his capacity as an ESOP Trustee with the other ESOP Trustee.

(10) Mr. Mowry exercises sole voting rights over 40,195 shares held directly, 84,841 shares held in the ESOP account established for his benefit, 69,395 restricted shares and 239,395 shares underlying options. He exercises sole dispositive rights over the 40,195 shares directly held and 239,395 shares underlying his options.

(11) Mr. Veltri exercises sole voting rights over 100,000 restricted shares

(12) Mr. Youngbauer exercises sole voting rights over 261,174 shares held directly and 275,000 shares underlying options. He exercises sole dispositive rights over the 261,174 shares directly held and 275,000 shares underlying his options.

* Director

** Officer Only

PROPOSAL 1: ELECTION OF DIRECTORS

Directors

The Company's Board currently consists of seven directors. The Company's Articles of Incorporation provide for the division of the Company's Board into three classes as equal in number as the total number of members of the Board provided in the Bylaws permits. The Company's Bylaws limit service of the independent directors to two three year terms. If recommended by the Chairman of the Board and approved by the Board, an independent director may serve one additional term.

Directors are subject to mandatory retirement at 70 years of age. If a director reaches the age of 70 during his regularly elected term, he is allowed to serve out the term for which he was elected.

The nominees for election at the Annual Meeting are Keith G. Larsen and Thomas R. Bandy, both of whom are incumbent directors. Please see biographical information for the directors and the nominees below, under the heading "Business Experience of Directors and Officers." If approved by the shareholders, Keith G. Larsen and Thomas R. Bandy will serve terms that will expire at the 2018 annual meeting.

Recommendation of the Board

The Board recommends you vote for Proposal 1.

For the reasons provided in this Proxy Statement, we are asking shareholders to vote "FOR" the following resolution:

"RESOLVED, that the shareholders approve the election of each of Keith G. Larsen and Thomas R. Bandy as a director of the Company to serve until the third succeeding annual meeting of shareholders to be held in 2018 and until his successor has been duly elected or appointed and qualified."

Named Executive Officers

The executive officers of the Company are elected by the Board at the annual directors' meeting which follows each annual shareholder's meeting, to serve until the officer's successor has been duly elected and qualified, or until earlier death, retirement, resignation or removal. Please see biographical information for the named executive officers below, under the heading "Business Experience of Directors and Officers."

Business Experience of Directors and Officers

Set forth below is certain biographical information for each director and executive officer as of the date of this Proxy Statement. The Nominating Committee selects nominees based on their skills, achievements, and experience, and believes that each nominee should have experience in positions of responsibility and leadership and an understanding of our oil and natural gas exploration and production and mineral business segments. Our overall objective is to identify a group of directors that can best contribute to our long-term success. All of the directors and the nominees discussed below are seasoned leaders who collectively bring to the Board a vast array of oil and gas industry, mineral industry, public company, private company, and other business experience, all at the senior executive officer level, and who meet our director qualification standards. Among other attributes, the members of our Board possess a wide breadth of varied skills, experience and leadership in the natural resources and energy industries, finance and accounting, risk management, operations management, strategic planning, business development, regulatory and government affairs, corporate governance, human resources and

compensation, and public policy—qualities that led the Nominating Committee and the Board to conclude that these individuals should serve as our directors at this time, in light of our business and structure, overall industry environment, and our long-term strategy. The specific experiences, qualifications, attributes, and skills of each director and nominee are briefly described below. In addition, the directors and nominees represent diverse backgrounds, skill sets, and viewpoints, with a blend of historical and fresh perspectives on our Company, and have a demonstrated ability to work collaboratively with candid discussion.

Keith G. Larsen (56) - Management Director and Director Nominee. Keith G. Larsen was employed by U.S. Energy and its affiliates in various non-executive positions from May of 1982 to November 25, 1997, at which time he became a director and President and Chief Operating Officer. On August 23, 2005, he became Chairman of the Board and Chief Executive Officer. Mr. Larsen's experience and skills in negotiating complex transactions and in acquiring, developing and selling mineral properties have led the Board to conclude that he should serve as a director, Chairman of the Board, Chief Executive Officer and as a member of the Executive Committee.

Thomas R. Bandy (61) - Independent Director and Director Nominee. Mr. Bandy was elected to the Board on June 29, 2012. Mr. Bandy has over 35 years of management and operational experience in the oil and gas industry. In 1984 Mr. Bandy formed and managed ProTechnics Company, a company that provides specialized tools and techniques to aid oil and gas companies in evaluating the efficiencies of fracture stimulation projects throughout the world. ProTechnics was sold to Core Laboratories in 1996 and remains as a key part of Core Laboratories' services portfolio. In 1998, Mr. Bandy formed and managed Production Access, a software development company that created software for oil and gas companies to improve their field drilling and production operations. Production Access was sold to Petris Technologies and eventually sold to Halliburton. From 2007 to 2012, Mr. Bandy worked for Blue Tip Energy Management, LLC, a private equity company formed to purchase and exploit producing oil and gas assets in the U.S. In 2013, Mr. Bandy co-Founded IronHorse Resources LLC, a privately held oil and gas company which currently owns producing assets in the Rocky Mountain region. The Board has concluded that Mr. Bandy's experience qualifies him for service as an independent director and as a member of the Compensation, Hedging and Nominating Committees.

Stephen V. Conrad (68) - Independent Director. Mr. Conrad was elected to the Board on June 25, 2010. Mr. Conrad is a former Partner of Deloitte & Touche LLP and Arthur Andersen LLP. He has over 35 years of experience in serving public company clients including numerous oil and gas and mining companies. For the past ten years Mr. Conrad has been a managing partner of several oil and gas exploration and development funds. Mr. Conrad is a CPA with a B.S. Degree in Accounting from Montana State University. The Board has concluded that Mr. Conrad's experience qualifies him for service as an independent director and as a member of the Audit Committee.

Jerry W. Danni (62) - Independent Director. Mr. Danni was elected to the Board on June 24, 2011. Mr. Danni has more than 30 years of experience in the domestic and international mining industry. Since 2013, Mr. Danni has served as Senior Vice President Sustainability for Goldcorp, Inc. From 2005 to 2013, Mr. Danni was Executive Vice President and Senior Vice President, Corporate Affairs for Golden Minerals Company; Senior Vice President, Environment, Health and Safety for Kinross Gold Corporation; Vice President, Environmental Affairs for Cyprus Climax Metals Company; and Director, Corporate Environmental and Government Affairs for Lac Minerals Ltd. Mr. Danni has a Bachelor of Chemistry degree from Western State College and is a member of the Society of Mining Engineers. Mr. Danni has also served on the Board of Directors for the National Mining Association and the Board of Trustees of the Northwest Mining Association. The Board has concluded that Mr. Danni's experience qualifies him for service as an independent director and as a member of the Audit and Compensation Committees.

Leo A. Heath (65) - Independent Director. Mr. Heath was elected to the Board on June 24, 2011. Mr. Heath has nearly 40 years of experience in the oil and gas industry. Since 2002, Mr. has served as Department Head/Assistant Professor of Petroleum Engineering at Montana Tech. Mr. Heath experience also include; Manager of production engineering and field operations in Montana for EnCana Energy Resources, Inc.; District Manager and Production Manager for North American Resources Company; Partner and Owner of Sylvan Petroleum Corp.; Development Manager for Petro Lewis Corp.; Drilling and Production Manager for TXO Production Corp.; and other engineering positions with various other oil and gas companies. Mr. Heath has both a Bachelor of Science degree in Petroleum Engineering and a Master's degree in Project Engineering and Management from Montana Tech. Mr. Heath is a Registered Professional Engineer, a member of the Society of Petroleum Engineers, and also serves as a Member of the Board of Directors for the Montana Petroleum Association. The Board has concluded that Mr. Heath's experience qualifies him for service as an independent director and as a member of the Audit, Compensation and Nominating Committees.

James B. Fraser (61) – Independent Director. Mr. Fraser was elected to the Board on June 20, 2014. Mr. Fraser has over 35 years of management, operational and technical experience in the oil and gas industry. Mr. Fraser is currently the Managing Partner & CEO of Source Rock Energy Partners, a private equity firm formed in January 2014 to provide capital for North American upstream energy ventures. Mr. Fraser was President/Owner of Fraser Consulting Inc., from 2012 to 2014 providing consulting services to the E&P industry focusing on resource play strategy and development. Mr. Fraser's prior experience includes: from 2008 to 2012, Senior Vice President – Shale Division, North American Operations for Talisman Energy Inc.; Vice President – Operations, Southern Division for Chesapeake Energy Corporation; and Operational and Exploration management roles with Burlington Resources and predecessor companies. The Board has concluded that Mr. Fraser's experience qualifies him for service as an independent director and as a member of the Compensation and Hedging Committees. Mr. Fraser has a Bachelor of Science degree in Petroleum Engineering from Montana Tech and a Masters of Business Administration-Finance degree from Regis College.

Mark J. Larsen (52) - Director. Mark J. Larsen was employed by U.S. Energy and its affiliates in various nonexecutive positions from June 1984 to August 23, 2005, at which time he became President and Chief Operating Officer of the Company and served in those roles until his retirement on December 31, 2014. Mr. Larsen became a director of the Company in October 2006. He graduated from the University of Wyoming with a B.S. Degree in Business Management and has over 25 years of experience in the natural resources sector. The Board has concluded that Mr. Larsen's skill in seeking opportunities for the Company, in executing the acquisition and sale of numerous oil and gas properties, as well as developing strategies to create value from the acquisition and sale of assets qualify him for service as a director of the Company.

David A. Veltri (57) – President/COO. Mr. Veltri has over 33 years of oil and natural gas industry experience with a major oil company and several independent oil companies, where he has managed and provided engineering for all phases of upstream and mid-stream oil and natural gas operations, covering North Dakota, Wyoming, the Rocky Mountains, the Southern U.S., Mid-Continent, Louisiana, Texas and various international locations. Most recently, Mr. Veltri served as Chief Operating Officer of Emerald Oil Inc. from November 2012 through December 2014. From October 2011 through October 2012, Mr. Veltri provided independent consulting services to the E&P industry and managed private mineral interests in DAV Minerals Inc. From August 2008 through September 2011, Mr. Veltri served as Vice President/General Manager of Baytex Energy USA Ltd., where he managed business unit operations, capital drilling programs, lease maintenance and producing properties in the Williston Basin in North Dakota. From September 2006 to July 2008, Mr. Veltri was Production Manager at El Paso Exploration and Production Company, where he managed producing oil and natural gas properties located in northern New Mexico. Mr. Veltri received a Bachelor of Science in Mining and Engineering from West Virginia University.

Steven D. Richmond (44) - Chief Financial Officer and Treasurer. Mr. Richmond was appointed to the position of Chief Financial Officer on September 7, 2012 and Treasurer on January 1, 2015. Mr. Richmond has been employed by the Company and its subsidiaries since 1992 and he has served as Controller and Assistant Controller for the Company since 2003. Mr. Richmond has over 12 years of experience in the accounting profession and 20 years in the oil and gas and mining industries. Mr. Richmond received a Bachelor of Science degree in Business Administration from the University of Wyoming.

Bryon G. Mowry (56) - Principal Accounting Officer and Secretary. Mr. Mowry was appointed Principal Accounting Officer in June 2011 and Secretary on October 1, 2014. Mr. Mowry has served as Controller and Assistant Controller for the Company since November 1995. Mr. Mowry has over 30 years of experience in the accounting profession and 16 years in the oil and gas and mining industries. Mr. Mowry has also held accounting positions in banking and education. Mr. Mowry received a Bachelor of Arts degree in accounting and management information services from Chadron State College.

Family Relationships

Keith G. Larsen, a director, Chief Executive Officer and Chairman of the Board, and Mark J. Larsen, a director, are brothers.

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), directors, executive officers, and persons beneficially holding more than 10% of our common stock must report their initial ownership of our common stock and any changes in that ownership in reports that must be filed with the SEC and us. The SEC has designated specific deadlines for these reports and we must identify in this Proxy Statement those persons who did not file these reports when due.

Based solely on a review of reports furnished to us and written representations from the filing persons, all directors, executive officers, and 10% owners timely filed all reports regarding transactions in our securities required to be filed for 2014 under Section 16(a) of the Exchange Act.

PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS

The Board seeks shareholder ratification of the Audit Committee's appointment of Hein & Associates LLP, certified public accountants, to act as the auditors of our financial statements for the year ending December 31, 2015. Hein & Associates LLP has audited our financial statements for the years ended December 31, 2014, 2013 and 2012. The Audit Committee has not determined what action would be taken should the appointment of Hein & Associates LLP not be ratified at the meeting.

Principal Accounting Fees and Services

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 are 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 Exchange Act.

Hein & Associates LLP has been paid for fees and services in 2014 and 2013 as shown below, all of which were approved by the Audit Committee:

	Year Ended	
	December 31,	
	2014	2013
Audit Fees (a)	\$224,400	\$223,800
Audit-Related Fees (b)	13,100	12,600
Tax Fees (c)	45,100	34,800
All Other Fees (d)	230,100	70,800
Total	\$512,700	\$342,000

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

(b)Includes fees for audit of the annual financial statements for U.S. Energy's wholly owned subsidiary, Energy One LLC.

(c)Includes fees for tax return preparation and consultation on tax matters.

(d)Includes fees for joint interest audit services.

The percentage of services provided for Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees for 2014 and 2013 are as follows:

	Year Ended	
	December 31,	
	2014	2013
Audit Fees	43.8%	65.4%
Audit-Related Fees	2.6%	3.7%
Tax Fees	8.8%	10.2%
All Other Fees	44.9%	20.7%
Total	100.0%	100.0%

Relationship with Independent Accountants

Hein & Associates LLP has audited the Company's financial statements for the twelve months ended December 31, 2014 and 2013. A representative will be present at the Annual 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 Hein & Associates LLP 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.

Recommendation of the Board

The Board recommends you vote for Proposal 2.

For the reasons provided in this Proxy Statement, we are asking shareholders to vote "FOR" the following resolution:

"RESOLVED, that the shareholders ratify the Audit Committee's appointment of Hein & Associates LLP, certified public accountants, to act as the auditors of the Company's financial statements for the year ending December 31, 2015."

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PROPOSAL 3: AMENDMENT TO 2012 EQUITY PLAN

Introduction.

At the 2012 annual meeting, our shareholders approved the 2012 Equity Plan. The 2012 Equity Plan provides for the grant of equity awards to officers and other employees of the Company and subsidiaries.

We are seeking shareholder approval of amendments to the 2012 Equity Plan to (i) increase the shares available for issuance by 2,000,000 and (ii) include independent members of the Board as potential award recipients. The material features of the 2012 Equity Plan are described below.

Summary of the 2012 Equity Plan.

This summary is subject, in all respects, to the terms of the plan, which is attached as Appendix A to this Proxy Statement.

Purpose. The purpose of the 2012 Equity Plan is to attract and retain officers and other employees— and, if Proposal 3 is approved, independent directors—of the Company and its subsidiaries and to provide to such persons incentives and rewards for superior performance.

Administration. The 2012 Equity Plan is administered by the Board, which may from time to time delegate all or any part of its authority under the 2012 Equity Plan to the Compensation Committee of the Board (or a subcommittee thereof), as constituted from time to time.

Eligibility. Participants are those officers and other employees of the Company or subsidiaries who are designated as participants by the Board. As of December 31, 2014, the Company and its subsidiaries had 14 officers and other employees.

If approved, the amendment to the 2012 Equity Plan contemplated by Proposal 3 would expand the definition of "Eligible Individuals" under the 2012 Equity Plan to include independent directors, in addition to officers and employees. The Company currently has five independent directors serving on its Board, and will have five independent directors serving on its Board following the Annual Meeting if Thomas R. Bandy (an incumbent independent director nominee) is re-elected at the Annual Meeting. The Company believes that participation of the independent directors in the 2012 Equity Plan would further the purpose of the 2012 Equity Plan described above.

If Proposal 3 is approved, making independent directors eligible recipients of awards under the 2012 Equity Plan, future grants of equity awards to independent directors will be made under the 2012 Equity Plan rather than under the 2008 Stock Option Plan for Independent Directors.

Shares Available. The 2012 Equity Plan authorized the issuance of 1,200,000 shares pursuant to awards issued under the plan. If approved, the amendment to the 2012 Equity Plan contemplated by Proposal 3 would increase the shares available for issuance by 2,000,000. As of April 23, 2015, the closing price of our stock was \$1.26 per share.

The maximum number of shares with respect to which awards may be granted to any employee during any fiscal year is 200,000 shares. If Proposal 3 is approved, the maximum number of shares that will be permitted to be granted to an independent director in any year is 100,000. In determining the number of shares that remain available for grant, shares shall not be counted as used unless and until they are actually delivered to a participant. The total number of shares available under the plan as of a given date shall not be reduced by any shares relating to prior awards that have expired or have been forfeited or

cancelled. If the award is settled in cash, the number of shares on which the award is based shall not count toward the share limits.

Shares tendered with respect to the payment of any option exercise price, and shares withheld to satisfy recovery of all or a portion of the applicable tax withholding obligations, will count against the maximum share limit.

For awards that have been granted under the 2012 Equity Plan, see "Compensation Discussion and Analysis – Equity Incentive Awards – 2012 Equity Plan" and the "Grant of Plan-Based Awards" table in this Proxy Statement.

Types of Awards. The 2012 Equity Plan provides for the grant of non-qualified stock options, incentive stock options, appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and other equity-based awards. The plan permits dividend equivalents on restricted stock units and performance awards if determined by the Board.

Stock Options. The plan permits the granting of "incentive stock options" meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended ("Code"), and "nonqualified stock options" that do not meet such requirements. The terms and conditions of stock options, including the number of shares, exercise price, vesting periods, and other conditions on exercise, will be determined by the Board. In general, the exercise price must not be less than the market value per share (as defined in the plan) on the date of the grant.

Payment for shares of common stock on the exercise of stock options can be in cash, or in any other form of lawful consideration approved by the Board in its discretion from time to time, including (i) by delivery to the Company of common stock, with a market value per share on the date of delivery equal to the option exercise price; (ii) "cashless" exercise; (iii) by withholding a number of shares otherwise deliverable upon exercise of the option or (iv) any combination of the foregoing methods.

The term of each option shall not exceed ten years after the date of grant unless approved by the Company's stockholders.

Stock Appreciation Rights. The plan provides that the Board may grant stock option appreciation rights ("SARs"), which entitle the participant to receive, upon exercise, an amount in cash or shares of Company common stock based on the excess of the fair market value per share upon exercise over the base price per share of the SAR (a per share price generally not less than the market value per share of common stock on the date of the grant of the SAR). SARs must be exercised within a period fixed by the Board that may not exceed ten years from the date of grant. SARs can be either freestanding or tandem (meaning they are associated with a specific option and must be granted at the time of grant of such option). A tandem SAR is exercisable only to the extent the related option is exercisable. Upon the exercise of a tandem SAR, the related option, or the portion thereof in respect of which such SAR is exercised, will terminate. Upon the exercise of an option granted in tandem with a SAR, such tandem SAR will terminate.

Restricted Stock and Restricted Stock Units. The Board may award restricted stock, which are shares of common stock that are subject to specified restrictions that may result in forfeiture of the shares. The forfeiture restrictions on the shares may be based upon completion of a specified period of service by the participant or the achievement of specified performance or other objectives. Until all restrictions are satisfied, lapsed or waived, we will maintain custody over the restricted stock but the participant will be able to vote the shares and will be entitled to all distributions paid with respect to the shares, as provided by the Board.

The Board also may award to a participant restricted stock units, each representing the economic equivalent of one share of common stock and the right to receive, once vested, cash or shares of common stock as determined by the Board. Restricted stock units may vest upon the achievement of one or more goals relating to the completion of a specified period of service by the participant, or the achievement of specified performance or other objectives, as determined by the Board.

Performance Awards. The Board may grant performance awards that will become payable to a participant upon achievement of specified performance objectives during pre-determined performance periods. Performance awards may be denominated in stock units or other measurements of value and may be paid in cash, shares or any combination thereof. Before the performance awards will be earned and paid, the Board must certify that the performance objectives have been satisfied.

Other Share-Based Awards. The Board may grant other share-based awards that are payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of common stock. Grants of share-based awards may be subject to such conditions, restrictions and contingencies as the Board may determine.

Code Section 162(m). The plan is intended to enable the Company to pay qualified performance-based compensation that is exempt from the \$1 million per year compensation deduction limitation of Code Section 162(m). Performance based compensation may consist of (i) options or stock appreciation rights issued with an exercise or base price of at least 100% of the fair market value of the common stock on the date of grant, or (ii) other awards that are payable solely upon achievement of one or more objective performance criteria established by the Compensation Committee in accordance with Code Section 162(m).

The performance criteria are set at the sole discretion of the Compensation Committee and may be based upon any one or more of the following:

- Revenue
- Earnings before interest, taxes, depreciation and amortization
- Profits
- Operational cash flow
- Debt management
- Earnings per share
- Return on invested capital
- Return on equity
- Share price
- Oil and gas proved developed and proved undeveloped reserve replacement
- Oil and gas production
- Mineral reserve and resource replacement
- Mineral production

Performance criteria may be based upon the attainment of specified levels of Company (or subsidiary, division, or other operational unit) performance under one or more of the performance criteria relative to the performance of other peer companies. Before any payments are made with respect to any awards, the Committee shall certify in writing whether and to what extent the performance criteria relating to such payment have been met.

Antidilution Provisions. The plan provides the Board with the discretion to (i) adjust the number and type of shares subject to future awards, (ii) the number and type of shares subject to outstanding awards and (iii) the grant or exercise price with respect to any award, in each case, to prevent dilution or enlargement of benefits intended to be made available under the plan in the event of any corporate transaction, dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities, the issuance of warrants or other rights to purchase shares or other securities, or other similar capitalization or corporate change.

Effective Date; Term. The 2012 Equity Plan became effective as of July 1, 2012 and will continue to remain effective for ten years measured from the date of the plan's adoption, subject to the right of the Board to terminate the plan, on a prospective basis only, at any time. If Proposal 3 is approved, the plan will remain in effect for a period of ten years from the date of shareholder approval.

Amendment. The Board may amend the plan at any time but cannot, without the prior approval of stockholders (i) materially increase the benefits accruing to participants, (ii) materially increase the number of securities which may be issued under the plan, (iii) materially modify the requirements for participation in the plan or (iv) make any amendment that would require approval by stockholders in order to comply with applicable law or the rules of the principal national securities exchange upon which the common stock is traded or quoted.

Change in Control. In the event of a change in control, the Board may, in its discretion:

- _ provide that any options and SARs outstanding which are not then exercisable and vested shall become immediately vested and fully exercisable;
- _ immediately lapse restrictions and deferral limitations applicable to any restricted stock, restricted stock unit and other awards;
- provide that performance criteria applicable to performance awards be deemed to be satisfied;
- provide for the assumption or substitution of awards; and
- make such settlements of outstanding awards as it deems appropriate.

During the 12-month period following a change in control all outstanding awards shall become vested: (i) upon the involuntary termination of a participant's employment other than termination for cause; (ii) upon the voluntary termination of employment by the participant following a material and adverse change in the participant's compensation, responsibilities, functions or reporting relationship; or (iii) in the event a participant resigns rather than accept a mandatory relocation greater than 50 miles. Any option or SAR that remains outstanding as of the date of termination of employment may thereafter be exercised until the earlier of (i) the third anniversary of the date of termination, or (ii) the expiration of the term of such option or SAR.

Summary of Federal Income Tax Consequences

The following is a summary of the federal income tax consequences of awards made under the plan. It is based on the federal tax laws and regulations currently in effect and existing administrative rules of the Internal Revenue Service. Participants may also be subject to state and local taxes in connection with the grant of awards under the plan. Participants should consult with their individual tax advisers to determine the tax consequences associated with awards granted to them under the plan. This information may not be applicable to participants who are not residents of the United States.

Non-qualified Stock Options. No income, for federal income tax purposes, will be realized by a participant at the time a non-qualified stock option is granted. At the date of exercise of a non-qualified stock option, ordinary compensation income will be realized by the participant in an amount equal to the excess of the fair market value of the shares on the date of exercise over the exercise price (the amount paid for the shares), and the Company will receive a tax deduction for the same amount. Upon the sale of such shares, any gain or loss realized is treated as either short-term or long-term capital gain or loss depending on whether the shares have been held more than one year.

Incentive Stock Options. No income, for federal income tax purposes, will be realized by a participant at the time an incentive stock option is granted. If shares are issued to a participant pursuant to the exercise of an incentive stock option, and if no disqualifying disposition of such shares is made by such participant within one year after the date of exercise or within two years after the date of grant, (a) no income, for federal income tax purposes, will be realized by the participant at the date of exercise, (b) upon the sale of such shares, any amount realized in excess of the exercise price will be taxed to the participant, for federal income tax purposes, as a long-term capital gain and any loss sustained will be a long-term capital loss, and (c) no deduction will be allowed to the Company for federal income tax purposes. If, however, the shares are sold before the expiration of the holding periods, the participant will recognize ordinary income from any gain on such sale up to the difference between the exercise price and the lesser of (i) the amount realized upon the sale of the stock, and (ii) the fair market value at exercise, and the Company generally will receive a tax deduction in the same amount. Such amount also will be the tax basis for the shares the participant acquires and thus any additional amount received upon sale of the stock will be a short term capital gain. Upon exercise of an incentive stock option, the excess of the fair market value over the exercise price is an item of tax preference to the participant for purposes of determining the alternative minimum tax.

Stock Appreciation Rights. At the date of grant of SARs, the participant will not be deemed to receive income, and the Corporation will not be entitled to a deduction. Upon exercise, the holder of a SAR will realize ordinary compensation income equal to the amount of cash or the market value of the shares received on exercise. The Company will be entitled to a deduction with respect to the ordinary income realized by the participant.

Restricted Stock Awards. Ordinary income will be realized by a recipient of a restricted stock award upon such stock no longer being subject to a risk of forfeiture at the end of the restriction period. The amount of income realized will be equal to the fair market value of the shares on the first day after the end of the restriction period, less the amount paid for the shares, if any. Such amount will also constitute the tax basis for the shares. In addition, the holding period will commence on the day the restriction expires for purposes of determining whether the recipient has long-term or short-term capital gain or loss on a subsequent sale of shares. The Company will be entitled to a deduction with respect to the ordinary compensation income realized by the participant.

A recipient of a stock award who makes an election under Section 83(b) of the Code within 30 days after the date of the grant will recognize ordinary income equal to the fair market value on the date of grant less the amount paid for the shares if any, and will recognize no additional income until the shares are subsequently sold. Upon sale of the shares, the participant will incur a short term or long-term capital loss depending on the sales price and how long the shares have been held. In such event, the tax basis will be equal to the fair market value on the date of the grant, and the holding period for capital gains purposes will commence on the date of grant. If the shares subject to such election are forfeited, the recipient will not be entitled to any deduction refund or loss for tax purposes (other than a capital loss with respect to the amount of tax previously paid).

Restricted Stock Units. Restricted stock units, whether paid in cash or shares of common stock, will not result in taxable income to a participant or provide a deduction to the Company until payment is made to the participant. Upon receipt of a payment, the participant will realize ordinary income equal to the amount of the cash received in the case of a cash payment or the market value of the shares received at the time of payment in the case of a payment in shares of common stock. Upon such payment, the Company will be entitled to a corresponding deduction with respect to the ordinary income realized by the participant. In addition, the holding period begins on the date any shares are received, if not subject to any restrictions, for purposes of determining short-term or long-term capital gain or loss on a subsequent sale of the shares.

Other Stock-Based Awards. Other awards will generally result in ordinary income to the participant at the time such awards are paid to the participant and in the amount of such payment. The Company will ordinarily be entitled to a deduction equal to the amount of ordinary income recognized by the participant.

Code Section 162(m). Code Section 162(m) generally limits to \$1,000,000 per year the amount of compensation paid to our covered employees (generally, or NEOs) we may deduct. The foregoing limitation does not apply to qualified performance based compensation. The Company intends that options and performance-vested awards granted under the plan will qualify as performance based compensation. However, a number of requirements must be met in order to so qualify, and there can be no assurance that such compensation will be fully deductible under all circumstances. In addition, other awards under the plan may not qualify as performance based compensation, and any deduction in regards to same may be limited under Code Section 162(m).

2012 Equity Plan Benefits.

The benefits or amounts to be received by plan participants are not determinable. For awards granted under the 2012 Equity Plan, see "Compensation Discussion and Analysis – Equity Incentive Awards – 2012 Equity Plan" and the "Grant of Plan-Based Awards - 2014" table in this Proxy Statement.

Shareholder Approval.

The amendment to the 2012 Equity Plan is being submitted to shareholders for approval in order to comply with the applicable requirements of the NASDAQ Stock Market. As discussed above, the amendment seeks to (i) increase the shares available for issuance by 2,000,000 and (ii) include independent members of the Board as potential award recipients.

Recommendation of the Board

The Board recommends you vote for Proposal 3.

For the reasons provided in this Proxy Statement, we are asking shareholders to vote "FOR" the following resolution:

"RESOLVED, that the shareholders approve the amendment to the 2012 Equity Plan to increase the shares available for issuance by 2,000,000, to include independent members of the Board as potential award recipients and to make the other changes set forth in Appendix A to the Company's 2015 proxy statement."

PROPOSAL 4: ADVISORY VOTE ON EXECUTIVE COMPENSATION

Our shareholders are entitled to cast an advisory "say-on-pay" vote at the Annual Meeting to approve the compensation of the Company's named executive officers ("NEOs") as a group, as disclosed in this Proxy Statement. The Company will hold an advisory vote on executive compensation every year until the next required advisory vote with respect to the frequency of advisory votes on executive compensation, which will occur at the Company's annual meeting of stockholders in 2017. At the 2014 annual shareholders meeting, the say-on-pay vote was 8,655,624 votes for, 757,707 against with 72,765 shares abstaining.

As an advisory vote, this Proposal 4 is not binding on the Board or the Compensation Committee. However, the Compensation Committee, which is responsible for designing and administering the Company's executive compensation program, values the opinions expressed by shareholders in their vote on this proposal and will continue to consider the outcome of the vote when making future compensation decisions for NEOs.

As discussed in detail in "Executive Compensation - Compensation Discussion and Analysis," our executive compensation programs are designed to provide a competitive level of compensation to attract, motivate and retain talented and experienced executives and to motivate them to achieve short-term and long-term corporate goals that enhance shareholder value.

Recommendation of the Board

The Board recommends you vote for Proposal 4.

For the reasons provided in this Proxy Statement, we are asking shareholders to vote "FOR" the following resolution:

"RESOLVED, that the shareholders approve, on an advisory basis, the compensation philosophy, policies and procedures and the compensation of the NEOs for 2014 as disclosed in the proxy statement for U.S. Energy's 2015 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the SEC, including the 'Compensation Discussion and Analysis', the compensation tables and the narrative disclosures that accompany the compensation tables."

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section describes the compensation programs for our principal executive officer, principal financial officer, and each of our other three most highly compensated executive officers for the 2014 fiscal year (the named executive officers or "NEOs"). The NEOs for fiscal 2014 were:

- Keith G. Larsen, Chairman of the Board and Chief Executive Officer;
- Steven D. Richmond, Chief Financial Officer;
- Mark J. Larsen, President, Chief Operating Officer and Treasurer (Mr. Larsen retired from the Company on December 31, 2014);
- Steven R. Youngbauer, General Counsel and Secretary (Mr. Youngbauer retired from the Company on September 30, 2014, and
- Bryon Mowry, Principal Accounting Officer.

Compensation Philosophy

The Compensation Committee's philosophy is (i) to use compensation to align the interests of the NEOs with shareholder interests, (ii) that executive compensation should be structured to incentivize and reward contributions made to the Company through the achievement of performance goals, and (iii) that compensation packages should be designed to attract and retain experienced executives.

Compensation Elements and 2014 Highlights

The summary below reflects the elements of our compensation program and the 2014 compensation highlights per element.

·Base Salary

We pay each of our NEOs a competitive base salary that is designed to provide a dependable income source for baseline performance. The Compensation Committee believes that base salary is critical in attracting and retaining outstanding employees at all levels. Base salaries are determined by the Compensation Committee (subject to Board approval) for executive officer positions and are based on the scope of responsibilities, seniority, our ability to replace the individual, and other factors. Base salaries for the NEOs are reflected in the Summary Compensation table below. For 2015, the Compensation Committee recommended and the Board approved the following base salaries: Keith G. Larsen, CEO \$375,000; David A. Veltri, COO \$359,000 (Mr. Veltri joined the Company on January 1, 2015); Steven D. Richmond, CFO \$234,000 and Bryon G. Mowry, CAO \$228,000.

·Cash Bonuses

We may pay discretionary annual cash bonuses each year to all of our employees, including our NEOs. Discretionary cash bonuses take two forms. The first is an annual cash holiday bonus which is generally equal to 10% of base salary. The holiday bonus is paid at the discretion of management, depending on available cash and the budget for the next year. For 2014, holiday bonuses were approved for all employees, including our NEOs, at 10% of base salary. Effective January 1, 2015, NEOs are no longer eligible to receive holiday bonuses. The second is a discretionary annual bonus designed to reward exceptional performance or for use in special circumstances. The Compensation Committee believes that discretionary bonuses provide important flexibility to reward contributions to the Company. No discretionary bonuses were paid to our NEOs in 2014.

·Performance Compensation Plan

The Performance Compensation Plan ("PCP") is an annual performance-based cash bonus plan that was adopted in 2009 and amended in 2011. Bonuses under the PCP are paid solely based on the achievement of certain performance goals established by the Compensation Committee at the beginning of each year, subject to the ability of the committee to exercise downward discretion even if goals are met. All employees, including our NEOs, are eligible to participate in the PCP. NEOs are generally eligible to earn a bonus of up to 100% of their base salary under the PCP. Other Company employees are eligible to earn between 10% and 50% of their base salary under the PCP. The Compensation Committee believes that the PCP is essential to incentivize and reward contributions made to the Company through the achievement of performance goals.

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2014: On December 6, 2013, the Compensation Committee recommended to the Board and the Board adopted the PCP and Bonus Award Matrix Criteria for 2014 (the "2014 Bonus Criteria"). Under the PCP and the 2014 Bonus Criteria, each of the Company's executive officers had the opportunity to earn an annual cash performance award of between 50% and 150% of base salary. The performance award was based upon the Company attaining specified financial and/or production goals, with 25% allocated to each of the following categories: (i) a 20% to 40% increase in the year-end proved reserves over 2013, (ii) a 25% to 55% increase in average daily production over 2013, (iii) cash flow from operations of \$20 million to \$30 million, and (iv) \$0.05 to \$0.15 net income per share. All other Company employees were entitled to earn a performance award in amounts ranging from 5% to 75% of their annual base salary, depending on their base salary.

Two of the 2014 Bonus Criteria factors were achieved in 2014: 1) the Company increased its year-end 2014 proved oil and gas reserves by greater than 20% over 2013 and 2) the Company recorded over \$20 million in cash flow from operations for 2014. However, the Compensation Committee determined that due to the downturn in oil prices beginning in the fourth quarter of 2014, no bonuses would be paid for 2014.

2015: On March 21, 2015, the Compensation Committee recommended, and the Board approved, the 2015 Bonus Award Matrix Criteria (the "2015 Bonus Criteria"). Under the 2015 Bonus Criteria, each of the Company's executive officers will have the opportunity to earn an annual cash performance award of 100% of base salary. Any such performance award will be based upon the Company attaining positive earnings before interest, taxes, depreciation and amortization ("EBITDA"). All other Company employees are entitled to earn a performance award in amounts ranging from 10% to 50% of their annual base salary, depending on their base salary. Eligibility for all awards will be determined as soon as practicable after December 31, 2015. A copy of the 2015 Bonus Criteria was attached as an exhibit to the Company's Current Report on Form 8-K filed on March 26, 2015.

Equity Incentive Awards

The Company issues equity incentive awards, generally stock options and/or restricted shares, to our NEOs under the terms and conditions of our equity incentive plans. The Compensation Committee believes these equity incentives are vital to (i) align the interests of our NEOs with those of our shareholders, (ii) encourage retention and (iii) reward long-term Company performance.

o2014: No options or restricted shares were issued in 2014.

2015: On January 2, 2015, Messrs. Keith Larsen and David Veltri were each issued 100,000 options and 100,000 restricted shares, Mr. Richmond was issued 71,316 options and 71,316 restricted shares and Mr. Mowry was issued 69,395 options and 69,395 restricted shares. The exercise price of the options was \$1.50 and they vest in equal tranches over three years. The restricted shares also vest in equal tranches over three years.

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·Executive Officer Retirement Benefits

A retirement plan for executives was approved by the Board on October 20, 2005. Eligibility requirements for receiving benefits under the plan include reaching age 60 and having served for a minimum of 15 years as a designated executive and being employed by the Company on December 31, 2010.

Benefits include five years of payments equal to 50% of the greater of the average of the individual's last five years of base salary or the last annual base salary. As a condition to payments, an executive, if requested by the Board, will provide up to 1,040 post-retirement consulting hours per year to assist with transition to other executives. If a retired executive is asked to provide more than 1,040 hours, he will be compensated at commensurate hourly rates. In the case of death, benefits will be paid to the executive's estate. Beginning in 2007, the Company began contributing amounts to a Rabbi Trust administered by a third party trustee in order to informally "fund" these benefits.

In addition, upon retirement, officers are generally eligible for healthcare insurance for themselves and their spouses for 18 months.

·Employment Contracts and Executive Severance and Non-compete Agreements

Effective September 6, 2013, the Board approved Executive Severance and Non-Compete Agreements (the "Executive Agreements") for Messrs. Keith Larsen, Mark Larsen, Youngbauer and Richmond. We entered into the Executive Agreements to ensure that the executives remain focused on current operations and to encourage retention in the event of a change in control of the Company. Messrs. Mark Larsen and Youngbauer retired from the Company during 2014 and their Executive Agreements terminated on their respective dates of retirement. Please see "Potential Payments upon Termination or a Change in Control" for additional details.

·Benefits and Perquisites

Each of our NEOs is eligible to participate in Company-wide retirement and health and welfare plans, including an ESOP and a 401(k) Plan.

Compensation Process

Each year, the Compensation Committee is provided information on Company and individual and department performance by the executives. The Compensation Committee also considers the outcome of the most recent shareholder advisory vote on executive compensation. The Compensation Committee then undertakes an analysis of the compensation package to determine if changes to any component should be recommended to the Board. With regard to the executives who have employment contracts with the Company, the PCP criteria or metrics to be attained (and the weight assigned to each) may be changed by the Board. Any changes to compensation for non-executive employees related to the executives must also be approved by the Compensation Committee. Neither management nor any consultants participate in the Compensation Committee's deliberations.

Actual payment of each component of compensation (except the award of options and stock, which is determined only by the Compensation Committee) is made on authorization of the Board, following the recommendations of the Compensation Committee each year. The amount earned or payable under each component is considered independent of the other components. Base salary is paid regardless of company-wide performance or payment of cash bonuses, and awards of options and stock are not related to salaries or cash bonuses, except that total compensation is considered as discussed above. We currently do not have any policies regarding the adjustment or claw back of payments or awards, if after payment or award the Company-level performance measures are restated or otherwise adjusted in a manner that would have reduced the size of the payment or award. The Board and the Compensation Committee will continue to monitor the implementation of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act for guidance before determining whether a clawback policy would be appropriate. We will continue to periodically review best practices and re-evaluate our position with respect to such matters. The Committee will also carefully consider the 2015 shareholder advisory vote on executive compensation in determining the 2016 PCP.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth above. Based on such review and discussion, the Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Jerry W. Danni, Chairman
Thomas R. Bandy
Leo A. Heath
Stephen V. Conrad
James B. Fraser

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Summary Compensation Table

Name and Position	Year	Salary	Bonus (1)	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Compensation (4)	Change in Pension Value & Non-Qualified Deferred Compensation Earnings (5)	All Other Compensation (6)	Total
Keith G. Larsen, Chairman and Chief Executive Officer									
	2014	\$306,100	\$30,600	\$--	\$--	\$ --	\$ 26,000	\$ 31,400	\$394,100
	2013	\$269,200	\$27,000	\$28,000	\$78,200	\$ 53,800	\$ 31,600	\$ 32,200	\$520,000
	2012	\$257,300	\$25,700	\$87,300	\$--	\$ --	\$ 22,700	\$ 29,400	\$422,400
Steven D. Richmond, Chief Financial Officer									
	2014	\$201,400	\$20,100	\$--	\$--	\$ --	\$ 2,000	\$ 30,700	\$254,200
	2013	\$172,900	\$17,400	\$--	\$60,200	\$ 34,600	\$ 34,100	\$ 24,800	\$344,000
	2012	\$155,000	\$23,500	\$--	\$32,600	\$ --	\$ --	\$ 22,900	\$234,000
Mark J. Larsen, Former President and COO									
	2014	\$297,300	\$29,700	\$--	\$24,300	\$ --	\$ 280,600	\$ 31,400	\$663,300
	2013	\$260,800	\$26,200	\$28,000	\$78,200	\$ 52,200	\$ 31,500	\$ 32,200	\$509,100
	2012	\$249,300	\$24,900	\$87,300	\$--	\$ --	\$ 18,000	\$ 29,400	\$408,900
Steven R. Youngbauer, Former General Counsel									
	2014	\$170,000	\$--	\$--	\$62,000	\$ --	\$ --	\$ 247,000	\$479,000
	2013	\$183,900	\$18,500	\$28,000	\$60,200	\$ 36,800	\$ (36,200)	\$ 30,400	\$321,600
	2012	\$175,800	\$17,600	\$87,300	\$--	\$ --	\$ --	\$ 30,200	\$310,900
Bryon G. Mowry, Secretary and PAO									
	2014	\$193,600	\$19,400	\$--	\$--	\$ --	\$ --	\$ 28,000	\$241,000
	2013	\$165,700	\$16,700	\$--	\$48,100	\$ 16,600	\$ --	\$ 24,000	\$271,100
	2012	\$155,000	\$23,500	\$--	\$32,600	\$ --	\$ --	\$ 22,900	\$234,000

(1) All officers and employees were paid a holiday bonus equal to 10% of base salary for the years ended December 31, 2014, 2013 and 2012. An additional cash bonus of \$8,000 was paid to the Company's CFO and Principal Accounting Officer in 2012.

(2) Each eligible officer received 5,000 fully vested shares per quarter of U.S. Energy's common stock during the first two quarters of the year ended December 31, 2013 and each quarter in the year ended December 31, 2012. Each grant of shares was made at the beginning of each quarter and valued at market. U.S. Energy paid all applicable taxes on these shares.

(3) The Company grants options to its employees and officers from time to time. There were no new option grants in 2014. In 2014, 43,333 unvested options held by Mark Larsen were vested immediately upon his retirement from the Company and remain exercisable for their full term. The fair value of this acceleration was \$0.56 per stock option. Additionally, 33,333 unvested options held by Steven Youngbauer were vested immediately upon his retirement from the Company and remain exercisable for their full term. The fair value of this acceleration was \$1.86 per stock option. The fair value of option grants and the option acceleration is based on the ASC Topic 718 value of such items, as set forth in Note L of our Form 10-K filed on March 12, 2015.

(4) The Compensation Committee granted performance bonuses under the PCP at December 31, 2013 in the amount of \$53,800 to Keith Larsen, \$52,200 to Mark Larsen, \$34,600 to Steven Richmond, \$36,800 to Steven Youngbauer and \$16,600 to Bryon Mowry. These bonuses were paid during the first quarter of 2014.

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(5) The amounts shown in this column are attributable to the increase, if any, in the actuarial value of each NEO's combined benefits under our executive retirement policy determined using interest rate and mortality assumptions consistent with those used in our financial statements. No NEO received preferential or above market earnings on deferred compensation.

(6) Components of All Other Compensation consist of life insurance, ESOP, 401(k) contributions and severance paid. Mr. Youngbauer was paid \$200,000 as a severance package and \$19,200 health insurance benefit upon his retirement. These areas of compensation are detailed in the following table:

		Life Insurance	ESOP Contribution (a)	401 Contribution (b)	(K) Severance	Total
Keith G. Larsen	2014	\$ 400	\$ 27,000	\$ 4,000	\$ --	\$31,400
	2013	\$ 400	\$ 27,800	\$ 4,000	\$ --	\$32,200
	2012	\$ 400	\$ 25,000	\$ 4,000	\$ --	\$29,400
Steven D. Richmond	2014	\$ 100	\$ 26,600	\$ 4,000	\$ --	\$30,700
	2013	\$ 100	\$ 20,700	\$ 4,000	\$ --	\$24,800
	2012					