US Energy Initiatives CORP
Form 10QSB
November 19, 2007

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

or

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-51789

US ENERGY INITIATIVES CORPORATION
(Exact name of registrant as specified in its charter)

GEORGIA	**58 2267238**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12812 Dupont Circle, Tampa, Florida 33626
(Address of principal executive offices) (Zip Code)

(813) 630-1229
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [_] No [X]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [_] No [_]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. At November 14, 2007, the Company had 42,215 Series A Preferred Shares and 23,431 Series B Preferred Shares outstanding and 239,966,883 of its $0.001 par value common shares outstanding.

Transitional Small Business Disclosure Format (check one): Yes [_] No [X]

US ENERGY INITIATIVES
Report on Form 10QSB

for the nine month period ended September 30, 2007

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US ENERGY INITIATIVES CORPORATION
CONSOLIDATED BALANCE SHEETS
September 30, 2007 (unaudited) and December 31, 2006 (audited)

	September 30, 2007 (unaudited)	December 31, 2006 (audited)
ASSETS		
Current Assets		
Cash	$ 884	$ 3,937
Accounts Receivable, net of $76,000 and $72,800 allowance respectively	86,893	300,163
Other assets	-	2,510
Prepaid expenses and deposits	36,796	46,060
Inventories	638,993	634,315
Deferred consulting	-	147,000
Deferred debt costs	14,500	1,021,707
Due from related party	48,563	-
Total current assets	$ 826,629	$ 2,155,692
Property, plant & equipment, net	530,306	554,722
Goodwill	683,877	
Purchase price subject to allocation		683,877
Total Assets	$ 2,040,812	$ 3,394,291
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 1,109,295	972,016
Debt in settlement	459,977	259,440
Due to related parties	226,852	214,849
Due to related parties,convertible debt	956,613	11,424
Notes payable	2,163,825	2,079,869
Discount on debt		(82,231)
Derivative liability	22,291	77,046
Other current liabilities	811,464	648,031
Total Liabilities	$ 5,750,317	4,180,444
Shareholders' Deficit		
Preferred Stock (.01 par value, 5,000,000 authorized)		
Preferred A stock (.01 par value, 42,215 shares issued and outstanding	422	422
Preferred B stock (.01 par value, 23,431 shares issued and outstanding)	234	234
Common stock (.001 par value, 295,000,000 shares authorized; 213,605,673 and 198,146,858 shares issued and outstanding, respectively	213,605	198,146
Additional paid-in capital	29,040,415	27,221,863
Deferred compensation	0	
Accumulated deficit	(32,964,181)	(28,206,818)
Total shareholders' deficit	(3,709,505)	(786,153)

Total Liabilities and Shareholders' Deficit	$	2,040,812	$	3,394,291

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US ENERGY INITIATIVES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Month Periods Ended September 30, 2007 and 2006 (unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenue	$ 177,640	$ 456,126	$ 803,886	$ 881,849
Cost of sales	168,053	267,484	717,410	462,443
Gross Profit	9,587	188,642	86,476	419,406
Operating Expenses				
Consulting and professional	138,334	314,757	499,133	1,410,463
Research & Development	1,874	26,571	38,513	52,682
Compensation	208,021	2,072,555	1,274,589	3,203,921
Depreciation and Amortization	27,739	44,725	81,004	134,650
Impairment Loss	-	-	1,310	-
Rent	58,600	58,545	171,490	131,534
Insurance	56,671	48,654	182,850	180,076
Other operating expenses	119,303	195,591	237,030	371,908
Total Operating Expenses	610,542	2,761,398	2,485,919	5,485,234
Loss from operations	(600,955)	(2,572,756)	(2,399,443)	(5,065,828)
Other Expense (Income)				
Derivative loss (gain)	(31,900)	(1,379,059)	274,239	(803,129)
Interest expense (Income)	366,355	1,303,962	2,083,681	2,724,917
Loss on extinguishment of debt	-	(216,000)	-	(162,557)
Other income	-	-	-	(1,164)
(Income) loss from other expenses	334,455	(291,097)	2,357,920	1,758,067
Net Loss	$ (935,410)	$ (2,281,659)	$ (4,757,363)	$ (6,823,895)
Basic and diluted weighted average common shares outstanding	213,364,369	128,096,006	210,334,932	116,400,574
Basic and diluted loss per share	$ (0.004)	$ (0.03)	$ (0.023)	$ (0.06)

US ENERGY INITIATIVES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Month Periods Ended September 30, 2007 and 2006 (unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities		
Net Loss	$ (4,757,363)	$ (6,823,895)
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Common stock issued for services	391,004	2,328,313
Depreciation	81,004	65,702
Amortization of deferred compensation	-	200,000
Amortization of deferred debt cost and debt discount	398,488	1,668,873
Amortization of deferred interest costs	799,450	
Amortization of deferred consulting	182,000	504,007
Amortization of intangibles	-	68,948
Impairment of asset	1,310	
Conversion benefit on related party advance	708,955	558,000
Gain on extinguishment of debt	-	(162,557)
Derivative (income) expense	274,239	(803,129)
Advance Deposits	-	(3,422)
Change in operating assets and liabilities		
Accounts Receivable	213,271	178,107
Inventory	(4,679)	(246,934)
Prepaid & deposits	32,846	(13,555)
Other assets	200	(800)
Accounts payable	129,150	67,488
Related Party payable	12,003	
Accrued liabilities	143,832	27,231
Other current liabilities	176,954	
Net Cash Provided (used) by operating activities	(1,217,336)	(2,387,623)
Cash flows from Investing Activities		
Purchase of property and equipment	(26,907)	(4,323)
Proceeds from sale of equipment	1,000	
Business acquisition	-	(292,635)
Cash acquired in business acquisition	-	63,049
Net cash provided (used) by investing activities	(25,907)	(233,909)
Cash flows from Financing Activities		
Loans from related parties	945,190	558,000
Payment to related parties		(161,540)

Payment on notes payable				(976,602)
Proceeds from notes payable		150,000		
Proceeds from convertible debt – Dutchess		145,000		2,414,025
Net cash provided (used) by financing activities		1,240,190		1,833,883
Net increase (decrease) in cash and cash equivalents		(3,053)		(787,649)
Beginning cash and cash equivalents		3,937		818,557
Ending cash and cash equivalents	$	884	$	30,908
Supplement disclosure of cash flow information				
Cash paid during the year for interest	$	5,000	$	41,477
Common stock issued for services	$	402,468	$	2,328,313
Common stock issued for conversion of convertible note	$	566,087	$	1,801,695
Amortization of common stock issued for deferred compensation			$	200,000
Common stock issued for discount on debt	$	86,500	$	366,000
Common stock issued as debt cost			$	1,500,000
Common stock issued to raise convertible debt			$	558,000
Common stock issued for incentive on debt	$	22,500		

US ENERGY INITIATIVES CORPORATION
Notes to Consolidated Financial Statements
For the Nine Month periods ended September 30, 2007 and 2006
(unaudited)

Note 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of those of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the nine month periods ended September 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation

The consolidated financial statements include the accounts and operations of US Energy Corporation and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in preparing the consolidated financial statements.

b. Use of Accounting Estimates

Management is required to make estimates and assumptions during the preparation of the consolidated financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements. They also affect the reported amounts of net income. Actual results could differ materially from these estimates and assumptions.

c. Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

d. Accounts Receivable

Accounts receivable are stated at estimated net realizable value. Accounts receivable are comprised of balances due from customers.

e Inventories

Inventories are stated at the lower of cost or market first-in, first-out (FIFO) method.

f. Property, Plant and Equipment Net

Property, plant and equipment is capitalized at cost and depreciated using the straight-line depreciation method over the estimated useful lives of the respective assets. Leasehold Improvements are amortized using the straight-line depreciation method over the live of the respective lease or the service lives of the improvements, whichever is

shorter.

g. Goodwill and other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards *"Goodwill and Other Intangibles"* (SFAS 142), intangible assets with an indefinite life, namely goodwill, are not amortized. Intangible assets with a definite life are amortized on a straight-line basis over their estimated useful lives of ten years. Intangible assets with indefinite lives will be tested for impairment annually and when an event occurs that would indicate that the carrying amount may be impaired.

h. Impairment of Assets

In accordance with Statement of Financial Accounting Standards No. 144 "Accounting for Impairment or Disposal of long-lived Assets" ("SFAS 144") long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When factors indicate that the assets should be evaluated for possible impairment, the Company uses an estimate of related non discounted cash flows. A deficiency in these cash flows relative to the carrying amounts is an indication of the need for a write-down due to impairment. Losses on impairment are recognized by a charge to earnings.

i. Income Taxes

The Company accounts for income taxes in accordance with the Statement of Financial Accounting Standards *"Accounting for Income Taxes"* ("SFAS 109"). Under the liability method specified by SFAS 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. Valuation allowances are provided if necessary to reduce deferred tax assets to the amount expected to be realized.

j. Earnings (Loss) Per Common Share

Earnings (loss) per share are computed using the basic and diluted calculations on the face of the statement of operations. Basic earnings (loss) per share are calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period, adjusted for the dilutive effect of common stock equivalents, using the treasury stock method. The warrants outstanding were determined to be antidilutive and therefore do not affect earnings per share.

k. Revenue Recognition

In the sale of our dual-fuel conversion systems, if we install the system, revenues are recognized when the finished vehicle is retrieved by the customer. If our system is installed by a third-party, we recognize revenues on our dual-fuel system when the merchandise is shipped to the customer, which is when title and risk of loss has passed to the customer.

In the sale of our custom electronic manufacturing products and services, we recognize revenues when the merchandise is shipped to the customer, which is when title and risk of loss has passed to the customer.

l. Stock Based Compensation

The Company has adopted SFAS No. 123R, *"Accounting for Stock Based Compensation"* as of January 1, 2006. For the period ended September 30, 2005, the Company applied Accounting Principles Board Opinion No. 25 and related interpretations in accounting for options issued to employees. Under Opinion No. 25, the intrinsic method is used to determine compensation expense when the fair market value of the stock exceeds the exercise price on the date of grant. As of September 30, 2007 and 2006, no options had been granted under the plan and therefore no compensation expense has been recognized.

m. Research and Development Costs

The Company charges research and development costs to expense as incurred.

n. Fair Value of Financial Instruments

The Company, in estimating its fair value disclosures for financial instruments, uses the following methods and assumptions:

Cash, Accounts Receivable, Accounts Payable and Accrued Expenses : The carrying amounts reported in the balance sheet for cash, accounts receivable, accounts payable and accrued expenses approximate their fair value due to their relatively short maturity.

Long-Term Obligations : The fair value of the Company's fixed-rate long-term obligations is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. At September 30, 2007 and 2006, the Company did not have any long-term obligations.

o. Accounting For Financial Instruments

In May 2003, the FASB issued Statement of financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150). SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock.

p. Reclassifications

Certain reclassifications have been made to the financial statements for the three and nine months ended September 30, 2006 to conform to the presentation for the three and nine months ended September 30, 2007

q. Going concern:

The accompanying financial statements have been prepared assuming the company will continue as a going concern. As reflected in the financial statements, the Company has negative working capital for the period ended September 30, 2007 and a loss from operations. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The company believes it will have adequate financing in place.

The Company has entered into an agreement with a certain accredited investor relating to a $5,000,000 equity line which was registered with the Securities and Exchange Commission and declared effective during December 2005. Under the terms of the equity line, the company may draw up to $100,000 per put.

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The company also has an agreement in place with White Knight a Related Party who continues to provide financing to date.

The available funding from these agreements is expected to be sufficient for the Company to continue operations for the next year.

Note 3 - Related Party Transactions

White Knight (WK) is a major stockholder, per our agreement with WK, any funding provided by WK is to be repaid in common stock at a conversion price of $0.04 per share. The conversion price was agreed upon in December, 2003, when the Company's common stock was at $0.03 per share.

As of September 30, 2007, $787,955 is outstanding debt due to WK. Through the three month period ended September 30, 2007 WK advanced a total of $162,500.

Vital Trust Business Development Corporation , of which John Stanton is the Chief Executive Officer and Mark Clancy is the Chief Operating Officer has provided financing of $168,658. As of September 30, 2007 the Company has not repaid any debt to Vital Trust Business Development. Vital Trust Business Development Corporation will be repaid in common stock at 100% of the price per share.

As of the 3rd quarter 2007 the Company has not entered into a formal finance agreement with Vital Trust Business Development. John Stanton Chief Executive Officer and Chairman of the Board of Vital Trust is also the Chairman of the Company's Board of Directors and Mark Clancy Chief Operating Officer and Director of Vital Trust is also a Director of U.S. Energy Initiatives Corporation.

License Agreement

The Company entered into a licensing agreement with Frank Davis, our Chief Technology Officer, a Director and significant shareholder and Engine Control Technology LLC (ECT). The license gives the Company the exclusive world-wide rights, to utilize and exploit five issued and one pending patents including marketing and selling products. The underlying patents were developed by Frank Davis and other family members who are employees of the Company and the patents have since been assigned to ECT, the owner of which is Patricia Davis. Patricia Davis is the wife of Frank Davis.

In addition, the Company has a consulting agreement with Frank Davis to provide various technical consulting services. The agreement expires in 2009 but is automatically renewable annually thereafter, if not terminated by written notice. During the term of the agreement, the consultant shall receive health and dental insurance for himself and his immediate family which includes his wife, the use of a vehicle and reimbursement of certain related expenses.

On August 6, 2007 Engine Control Technologies cancelled the licensing agreement with U.S. Energy Initiatives. In a decision made by the Company to close the research and development facility located in Peachtree City Georgia the U.S. Energy Initiatives cancelled its consulting agreement with Engine Control Technology and Frank Davis. The company recorded all expenses incurred related to the agreement through September 30, 2007.

Note 4- Shareholders' Equity

Preferred Stock

Effective December 6, 2006, the Company increased its designated shares of previously undesignated preferred stock to 5,000,000. At June 30, 2007 the company had 42,215 Series A Preferred Shares and 23,431 Series B

Preferred Shares outstanding.

Series A Preferred Stock is convertible, at the option of the holder, at any time, into shares of the Company's common stock as determined by dividing $.19 by a conversion price determined on the date the related certificate is surrendered. The conversion price is subject to periodic adjustment and is initially established at $.01632. Series A Preferred Stock is automatically convertible into shares of the Company's common stock upon (i) the date specified by vote or written consent or agreement of holders of at least three quarters of the shares of Series A Preferred outstanding, or (ii) upon the closing of the sale of the company's common stock in a firm commitment, underwritten public offering registered under the Securities Act in which the Company receives gross proceeds of no less than $20 million. Series A Preferred Stock has a liquidation preference of the greater of $.19 per share or the amount that such share would be entitled to upon liquidation or distribution. The Series A Preferred Stock has voting rights, except as to the election of debtors, equal to the number of shares of common stock into which the Series A Preferred Stock is convertible. The Series A preferred Stockholders have the right to elect one director of the Company.

Series B Preferred Stock is convertible, at the option of the holder at anytime, into shares of the Company's common stock as determined by dividing the lower of $.09 or the price per share paid by the holder of the Series B Preferred Stock by a conversion price determined on the date the related certificate is surrendered. The conversion price is subject to periodic adjustment and is initially established at $.00773. Series B Preferred Stock is automatically convertible into shares of the Company's common stock upon (i) the date specified by vote or written consent or agreement of holders of at least three quarters of the shares of Series B Preferred Stock outstanding, or (ii) upon the closing of the sale of Company's common stock in a firm commitment, Underwritten public offering registered under the Securities Act in which the Company receives gross proceeds of no less than $20 Million. Series B Preferred Stock has a liquidation preference of the greater of $.09 per share or the amount that such share would be entitled to upon liquidation or distribution. The Series B Preferred Stock has voting rights, except as to the election of directors, equal to the number of shares of common stock into which the Series B Preferred Stock is convertible. The Series B Preferred Stockholders have the right to elect one director of the Company.

Note 5 – Goodwill

At September 30, 2007, goodwill consists of the following:

	September 30, 2007
Goodwill	$ 683,877
Less accumulated amortization	
Less Impairment	$
Total	$ 683,877

Goodwill was analyzed on December 31, 2006 for impairment as it has an indeterminant life. Based on the Company's analysis performed, an impairment loss of $61,820 was required to be recorded during the years ended December 31, 2006.

The impairment was determined in part by the company closing its Oklahoma Facility acquired with the DRV Energy Acquisition. The facility performed installation and service of gasoline conversion systems.

Note 6 – Intangible Assets

Amortization expense charged to operations was $0 and $68,948 for the period ended September 30, 2007 and 2006, respectively.

Based on the Company's analysis for impairment as of December 31, 2006, impairment losses of $781,411which was the remaining unamortized balance required to be recorded. The impairment was determined by the analysis of our current operating results, trends and undiscounted future cash flows.

Due to analysis of the companies gross profit for the certified gasoline systems the company revised it business model in 2006. The new model reflected the closing of the Installation and service facility in Oklahoma a selling and installing the gasoline conversions systems through our dealer network across the United States. After a further analysis of the operating results in 2006 the company determined it did not achieve the sales from the certified systems it expected through our dealer network.

In 2007 the company has changed its plan for the sales of these certified systems. Due to the operating results from 2006 and the unknown result of our plan for 2007 management has been unable to forecast projected profits, therefore we have recorded the impairment on the assets as of December 31, 2006. The Company will continue to analyze and review sales and will try to improve on revenues and profits generated from these certifications.

Note 7 - Debt in Default

The Company did not meet the payment terms on the note payable to Peachtree National Bank through September 30, 2007. The Company did remit $5,000 of the PeachTree debt during May 2007. The note is secured by the common stock owned by Robby Davis and Ricky Davis, both employees of the Company during the quarter ended September 30, 2007. The provisions of the note allow for the note to become immediately and fully payable upon default of payments. While the bank had not initiated any remedy actions for the default as of September 30, 2007, the full balance of the note has been reclassified as a current liability. The remaining principal balance as of September 30, 2007 was approximately $46,000.

The Company is delinquent in payment of payroll taxes. The Company finalized payments in May 2006 on a payment schedule for the federal payroll tax delinquencies prior to 2004. Current estimated delinquency along with accrued penalties and interest are as follows, as of September 30, 2007.

	September 30, 2007
Payroll and sales taxes	$ 371,453
Accrued penalties and interest	32,753
	$ 404,206

Note 8 – Litigation

On November 14, 2003, Ambac International Corporation filed a lawsuit seeking $109,915 together with interest at the rate of 15% per annum. The suits stems from a contract for delivery of certain parts for use in the manufacturing of our systems from 2002. We maintain the parts were delivered substantially past the date of anticipated delivery and that the parts when received were defective. During the first quarter, 2007, the Arbitrator awarded AMBAC a total of $ 259,440 including interest and court costs. Ambac and U.S. Energy Initiatives entered into a repayment agreement as of September 2007 for total payments of $350,361. The agreement allows the company to make monthly payments with interest to satisfy the debt. As of September 30, 2007, the Company had not remitted any payments towards the arrangement. As of September 30th 2007 no penalties or actions have been taken.

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On February 21, 2007, Boonville Natural Gas Corporation filed an action seeking $112,071. The suit alleges the Company breached it Contract to sell and install three Diesel/CNG conversion systems for use on Boonville's specially purchased vehicles. The suit seeks reimbursement for damages of the cost for 3 specialized vehicles, cost of tanks and employee labor and travel expenses. The Warrick Superior Court No. 2 in the State of Indiana ordered in favor of Booneville gas for the principal amount of $73,642, attorney fees and expenses of $6,974 and pre-judgment interest and post-judgment interest at the highest rate allowed by law. On August 7, 2007 a foreign judgment was filed in Hillsborough County Clerk of the Circuit Court 13th Judicial Circuit.

On April 18, 2007 Discount Enterprises Inc. filed an action against U.S. Energy Initiatives (along with one other defendant) alleging that the defendants did not comply with the terms of the Contract in regards to the timeliness of installation and the vehicles that were converted had mechanical problems. A deposition date is set for November 2007. As of September 30th 2007 the outcome of the suit can not be determined.

Mariann Bailey and David Bailey has filed a suit against U.S. Energy Initiatives and Automated Engineering on August 28, 2007 with the Circuit Court of the Thirteenth Judicial Circuit in Hillsborough County in the principal amount of $120,398 together with court costs, attorneys fees and any expenses incurred in the proceedings. The Baileys claim that they as guarantors made payment on an alleged debt owed by AEC to Platinum Bank and that the debt was part of the stock purchase agreement entered into with U.S. Energy Initiatives. The Company filed a motion to dismiss in October 2007. The company takes the position that the debt paid by the Baileys was not included as a creditor on the Schedule included in the purchase agreement.

Bud Industries an Automated Engineering vendor field a claim with the Circuit Court of the Thirteenth Judicial Circuit in Hillsborough County in the amount of $30,418 for goods sold and delivered. A Judgment was issued and the company has repaid approximately $15,049 of the outstanding debt.

Renewable Energy Resources, Inc. the predecessor or Internal Hydro International filed a suit with the Circuit Court of the Thirteenth Judicial Circuit in Hillsborough County for damages in the amount of $200,000 for a breach of contract. The suit was filed on the 6th day of August 2007. As of September 30, 2007 the outcome of the suit can not be determined.

From time to time the Company is subject to litigation relating to claims arising out of its operations in the ordinary course of business. Such claims, if successful, could exceed applicable insurance coverage. Other than what is currently disclosed herein the company is not currently a party to any material legal proceedings.

Note 9 - Stock Options and Warrants

The Company's Stock Option Plan ("SOP") was adopted in 2001 to provide for the grant to employees up to 2,000,000 incentive stock options within the meaning of Section 422 of the Internal Revenue Code. The SOP, which is administered by the Company's Board of Directors, is intended to provide incentives to directors, officers, and other key employees and enhance the Company's ability to attract and retain qualified employees. Stock options are granted for the purchase of common stock at a price not less than the 100% of fair market value of the Company's common stock on the date of the grant (110% for holders of more than 10% of the total combined voting power of all classes of capital stock then outstanding). As of September 30, 2007 and 2006, no options had been granted under the plan.

Note 10 - Derivative Financial Instruments

The captions derivative financial instruments consist of (a) the embedded conversion feature bifurcated from the Convertible Debentures, (b) the Warrants issued in connection with the Convertible Debts, (c) interest rate index, and (d) put options. These derivative financial instruments are indexed to an aggregate of 11,334,663 shares at September 30, 2006 and are carried at fair value.

At September 30, 2007 the following derivative liabilities related to common stock options and warrants and embedded derivative instruments were outstanding: (At September 30, 2007, the closing price for the Company's securities was $0.04.

Issue Date	Expiration Date	Instrument	Exercise Price Per Share	Value at Issue Date	Value at 9/30/07
3/05/05	3/05/10	1,600,000 warrants issued to Alpha Capital	$ 0.19	$ 928,000	$ 17,920
11/4/05	11/4/10	314,815 warrants issued to Dutchess Private Equity	$ 0.27	$ 85,000	$ 3,683
Fair value of freestanding derivative instrument liabilities for options and warrants					$ 21,603

Issue Date	Expiration Date	Instrument	Exercise Price Per Share	Value at Issue Date	Value at 9/30/07
12/20/05	12/21/06	Dutchess $1,362,500 term note	$ 0.27	$ 302,778	$ 294
3/23/06	3/23/07	Dutchess $1,412,500 term note	$ 0.27	$ 470,833	$ 394
7/13/06	10/13/07	Dutchess $845,000 term note	$ 0.27	$ 338,169	$ 0.00
Fair value of freestanding derivative instrument liabilities for term notes					$ 688
Total fair value of freestanding derivative instrument liabilities					22,291

The financial derivatives are accounted for as a liability according to the guidance of EITF 00-19 and FAS 133 and the fair values have been determined using the Black Scholes valuation model with the assumptions listed in the table

below

Expected term ranging from		.25 to 3.25 years
Stock Price at September 30, 2007	$	0.04
Expected dividend yield	$	0.00
Expected stock price volatility		103%
Risk-free interest rate ranging from		3.82% to 4.09%

The instruments were reduced for the embedded conversion features and warrants with the remaining balance being accreted back to their face amount using the effective interest rate method using an effective interest rate of approximately 300%. The actual accretion is straight line as it approximates the effective interest rate amount.

The derivative for the embedded conversion Feature of the Dutchess term note dated July 14, 2006 is valued using the projected stock price over the term of the instrument based on a historical weighted average stock price for a similar term to determine the conversion amounts and then a Black-Scholes valuation model for the resulting conversion share amounts.

The Company has two notes that have matured prior to September 30, 2007, with unpaid balances. The company has decided to assume a December 31, 2007 maturity date for the computation of the derivative.

Note 11- Debt Financing

On March 8, 2007, we completed an offering of our $132,000 principal amount 30 day promissory note (the "Note") to Dutchess Private Equity Fund, L.P. (the "Investor") for aggregate gross proceeds of $110,000. The note bears no interest. The company was to make payments to the Holder in the amount of the greater of a) one hundred percent (100%) of each put (as defined in the Investment Agreement between the Company and the Investor dated November 4, 2005) given to the Investor from the Company, (the "Payment Amount") until the face amount is paid in full, minus any fees due. The First Payment will be due at the closing of each Put ("Payment Date" or "Payment Dates") until this Note is paid in full. Notwithstanding any provision to the contrary in this Note, the Company may pay in full to the Holder the Face amount, or any balance remaining thereon, in readily available funds at any time and from time to time with out penalty. In the event that on the Maturity Date the company has any remaining amounts unpaid on this Note (the "Residual Amount"), the Holder can exercise its right to increase the Face amount by ten percent (10%) as an initial penalty and an additional two and one-half percent (2.5%) per month paid, pro rata for partial periods, compounded daily, as liquidated damages ("Liquidated Damages"). If a Residual Amount remains, the company is in Default. As of June 30, 2007 the company paid off this promissory note.

On August 29th, 2007, we completed an offering of $150,000 principal amount 90 day promissory note to an Investor . The note bears interest on the outstanding balance at an annual rate of twelve percent. The Company shall issue within two weeks following receipt of the loan amount 300,000 of its restricted common shares to the holder and the company shall acquire 300,000 restricted shares of Vital Trust Business Development Corporation and shall deliver said shares to holder. As of the September 30, 2007 the Vital Trust shares had not been delivered to the investor thereby resulting in a liability $24,600. Interest shall be paid in full at the maturity date. The company is to make weekly payments to the holder beginning five weeks after the execution of the agreement, continuing every week for a period of ninety days at which time any remaining unpaid balance and all accrued but unpaid interest shall be due and payable in full.

Note 12 – Acquisitions

On June 9, 2006 the company entered into a "Stock Purchase Agreement" for 100 percent of the outstanding common shares of Automated Engineering Corporation. The aggregate purchase price was $350,000, and was consummated by a cash payment in the amount of $292,635 to the shareholders of 83.6% of the outstanding shares. The balance of $57,365, representing a minority interest shareholder is included in accrued expenses as of December 31, 2006.

As this transaction occurred in the middle of a reporting period, the Company has designated the acquisition date for accounting purposes to be the end of the month of June. Therefore, operational results for this acquired entity will commence in the month of July 2006.

Note 13 - Segment Information

Commencing with the Company's acquisition of Automated Engineering Corporation in the second quarter of 2006 the Company operates in two business segments. The Natural gas vehicle conversion system segment operates development of natural gas conversion systems for light and heavy duty vehicles. The Electronic Manufacturing segment is electronic design, production and ability to proto-type and produce electronic control devices.

SEGMENT INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 IS AS FOLLOWS:

	Hybrid Fuels	Manufacturing	Total
Revenue	23,018	780,868	803,886
Cost of sales	30,404	687,006	717,410
Gross Profit	(7,386)	93,862	86,476
Operating Expenses			
Consulting and professional	483,196	15,937	499,133
Research & development	22,750	15,763	38,513
Compensation	1,047,633	226,956	1,274,589
Depreciation and amotization	62,576	18,428	81,004
Impairment loss		1,310	1,310
Rent	87,956	83,534	171,490
Insurance	137,536	45,314	182,850
Moving expense	2,900	7,200	10,100
Other operating expenses	180,997	45,933	226,930
	2,025,544	460,375	2,485,919
Loss from operations	(2,032,930)	(366,513)	(2,399,443)
Other income (expense)			
Derivative (loss)	274,239		274,239
Interest expense	2,069,140	14,544	2,083,684
Miscellaneous	(3)		(3)
	2,343,376	14,544	2,357,920
Loss from continuing operations	)	)	)
Net loss for reportable segments	(4,376,306)	(381,057)	(4,757,363)
Total Assets	1,029,844	1,010,968	2,040,812
Reconciliation of Segment Amounts Reported to Condensed			
Consolidated Amounts			
Revenue			
Total revenues for reportable segments		803,886	
Total consolidated revenue		803,886	
Net loss			

Net loss for reportable segments	4,757,363
Net loss consolidated	4,757,363

Note 14 –Recent Accounting Pronouncements

In February 2006, FASB issued SFAS 155. This accounting standard permits fair value re-measurement for any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; establishes a requirement to evaluate interests in securitized financial assets to identify them as freestanding derivatives or as hybrid financial instruments containing an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in form of subordination are not embedded derivatives; and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument pertaining to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year beginning after September 15, 2006. SFAS No. 155 has not had a material effect on our results of operations and financial position.

In March 2006, the FASB issued SFAS No. 156, which addresses the accounting for servicing assets and liabilities. SFAS No. 156 is effective at the beginning of an entity's first fiscal year beginning after September 15, 2006. SFAS No. 156 has not had a material effect on our results of operations or financial position.

In July 2006, the FASB issued Interpretation No. 48, " Accounting for Uncertainty in Income Taxes" (FIN48), effective for fiscal years beginning after December 15, 2006. FIN 48 requires a two-step approach to determine how to recognize tax benefits in the financial statements where recognition and measurement of a tax benefit must be evaluated separately. A tax benefit will be recognized only if it meets a "more-likely-than-not" recognition threshold. For tax positions that meet this threshold, the tax benefit recognized is based on the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The adoption of Fin 48 did not have a material impact on the consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No 157, "fair Value Measurements." SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company does not expect the adoption of SFAS No. 157 to materially impact its financial statements.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to materially impact the financial statements..

Note 15 – Subsequent Events

During October of 2007 a licensed Hybrid Fuel Systems Distributor, Witco Systems Inc., cancelled their distribution agreement. They cited a lack of sales opportunities in their sales area (Asia, South East Asia and the Middle East) the long gestation required between the introduction of the technology and the actual acceptance of the product was deemed to long for them to continue to participate. They cited excessive costs and continuing losses as their reason for termination.

On October 26, 2007 USEI sold the fixed assets, research and development inventory, and all research and development tools and software to Engine Control Technology, LLC. This sale was consummated upon the approval of General Motors of our dual fuel technology. GM had indicated that we were about to commence the production phase of this new product introduction. The Board decided that since no additional R&D was required, USEI should

divest itself of all R&D personnel and developmental equipment. Therefore at the end of October 2007 USEI sold all R&D Inventory, and R&D Equipment to Engine Control Technology, LLC for the sum of $200,000.

Item 2 - Management's Discussion and Analysis or Plan of Operations

This Report contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our expectation or belief concerning future events that involve risks and uncertainties. Our actions and performance could differ materially from what is contemplated by the forward-looking statements contained in this Report. Factors that might cause differences from the forward-looking statements include those referred to or identified under "Risk Factors" in our Annual Report on Form 10-KSB for the year ended December 31, 2006 and other factors that may be identified elsewhere in this Report. Reference should be made to such factors and all forward-looking statements are qualified in their entirety by the above cautionary statements. The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the results of our operations and financial condition. The discussion should be read in conjunction with the financial statements and notes thereto.

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes to those statements. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties.

OVERVIEW

As of October 2007 US Energy is operating in 3 segments due to its recent acquisition of Seaspray Aerosol, Inc.

- The alternative fuels market segment through the design and sale of our patent dual-fuel, diesel-natural gas conversion systems.
  In June of this year General Motors announced that our dual fuel kit had successfully completed the 100,000 km and that further development was not needed. The next step is to commence kit sales and conversion of GM vehicles in Thailand. Having the GM certification in hand, it was decided to cancel all further R&D expenses and to shut down the Atlanta Facility and sell all R&D equipment and excess Inventory. The Atlanta facility did not support the manufacture of kits and AEC was already producing all of the electrical components and has successfully outsourced all of the mechanical components. This decision dramatically reduced the expenses of USEI.

- The electronic manufacturing segment through the operations of our subsidiary Automated Engineering Corporation (AEC). AEC is an ISO 9001 certified, nineteen year-old company providing electronic design, prototype and production of electronic systems and components. We conduct our electronics design and manufacturing at our facility in Tampa, Florida. We also house our executive offices in our Tampa, Florida facility.

- The specialty aerosol filling segment, through the operations of our recently acquired subsidiary, Advanced Aerosol Technologies, Inc. (AATI). AATI is a ten year old company currently undergoing ISO 9001 certification, that formulates and sells its own proprietary products as well as providing private labeling services to a variety of companies.

  We offer our Aerosol filling capabilities primarily to clients requiring smaller production quantities that would not be economicable feasable for large aerosol concerns. The company is fully staffed with management, sales, and quality personnel. The USEI CEO overseas this company and assists in contract acquisition.

We have sought to insert our dual-fuel technology into the marketplace through original equipment manufacturers (OEMs) parallel with expanding our direct-to-consumer activities.

We offer our electronic design and manufacturing services primarily to clients that require smaller production runs that would not be economically feasible for larger production facilities.

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- Calculating the comparisons between our reporting periods

- Providing meaningful insight into our product and manufacturing costs as well as expenses incurred in delivering our technology have been difficult because we have previously sold our systems at the rate of one or two a month under federal and/or state grants. We have not had the ability for our product to take advantage of quantity discounts in our raw materials and component parts. Further, our labor costs in our present environment would appear unusually high given our revenues. However, in order for us to position our company to maximize opportunities, we have found it necessary to engage professionals and mechanics in sufficient number to complete the build-out of our facility in Atlanta as well as developing new systems.

In the case of our electronic manufacturing, we acquired AEC during June 2006 and have sought to make improvements in manufacturing efficiencies, procurement and to expand our design and prototyping services. As a result, the following annual and quarter comparisons may not be indicative of future operating results.

Discussion of Operations for 2006:

We executed our Memorandum of Understanding with General Motors Thailand (GMTh) in support of their C190 Colorado Pick-Up Program for model years 2007 through 2009. During the third and fourth quarter 2006 into the first quarter 2007, we continued durability testing and engineering analysis with GMTh. We completed a number of new installations for GMTh during the fourth quarter 2006 and early 2007. GMTh notified the Company during March 2007 they had completed their durability testing to their satisfaction and they are now prepared to proceed by offering our dual-fuel system as an option through their dealerships beginning in Thailand.   We completed the acquisition of Automated Engineering Corporation (“AEC”). We acquired AEC to manufacture in-house the electronic control unit component. The core of our system is incorporated into our electronic control unit. Our ability to manufacture the device in-house has resulted in a lower cost of goods and allowed us to ensure our system is manufactured under the highest quality standards. With the current equipment, machinery and facilities we now have, the Company can manufacture approximately 2,000 systems per month. We believe this provides us ample capacity to react to the potential sales we are pursuing .

We executed an agreement with PS Gas Company (“PSGas”) in Thailand for the conversion of diesel powered buses over a five year period. During the first quarter 2007, we successfully field-tested a system in a bus provided by PSGas in Thailand. The converted bus was taken on a 100 kilometer road test. We are now working with PSGas to schedule the intial roll-out of our dual-fuel systems through their fleet.   We expanded our exclusive fulfillment license with WITCO Intl for a host of countries including China, India, Malaysia, Korea and several other Asian countries. WITCO has now opened a field office in China and during the first quarter 2007, we shipped the ten production units to WeiChai Peterson Motors in China . We realized an increase in revenues from $652,400 at the year ended December 31, 2005 to $1,375,418 at the year-end 2006. Our loss to operations during the same periods were $(8,261,371) for the year ended 2005 and $(11,029,040) for the year ended 2006.

Our business model is patterned around our core dual fuel diesel to natural gas conversion technology and contract electronic manufacturing. Our model was primarily developed as a result of our operating experiences, available assets and our opinion of the market place in general. We highlight certain challenges we faced during 2005 and the fundamental adjustments we've made in developing our resultant business.

Determined that pursuing the sale of our dual fuel system exclusively to government municipalities and direct to consumers was sufficiently inconsistent as to retard our ability to achieve profitable operations. The appeal of our product is tied directly to the price differential between diesel and natural gas. When municipalities allocate funds to convert a vehicle or fleet of vehicles, the objective is to clean up emissions and not necessarily to justify a return on

investment. When market factors beyond our control cause the price of diesel or gasoline to temporarily rise in price elevating the differential over natural gas, we would experience a temporary increase in demand for our conversion systems. However, we are unable to predict with certainty when government funds would become available or when the price of fuels would take an extraordinary shift in price. As a result, while we continue to pursue both government and consumer sales, we are predominantly focused on delivering our technology through an original equipment manufacturer. In our opinion, the OEM tends to purchase an annual minimum quantity of products similar to our conversion system and then resells the system in tandem with their vehicle sales.

Determined that engineering and code writing for systems in a mobile setting would not allow us to achieve a level of precision and repeatability essential to maximizing our technology. Historically, we would conduct systems engineering in a mobile setting. While this technique is effective, it is time consuming, expensive and susceptible to error. As a result, we entered a ten year lease at our new 12,000 square foot facility in December 2004 and throughout 2005 into 2006, we incurred costs of approximately $750,000 in construction costs and equipment purchases. Since November, 2005, we been developing systems in a tightly controlled lab setting.

Shortly after our acquisition of AEC during June 2006, we noted a number of operating discrepancies that could have prevented us from operating at full capacity. We adjusted the methods we use in production and in ordering component parts. We also anticipated an upsurge in electronics manufacturing during the fourth quarter which is consistent with that business segment. However, given that we were the new owners of AEC and had not yet matured our own internal selling procedures, we were not able to capitalize on this annual upsurge. We have now improved our selling techniques and we’ve established a number of new client relationships which we believe will allow us to take advantage of annual sale cycles.

Discussion of Operations for 2007

Automated Engineering Corporation

2007 was a year of internal growth for AEC. Its developed several products for other companies which they now manufacture and it also developed 4 proprietary products for the luxury RV and Marine market places. Today's luxury RV 's and Yachts contain very costly, sensitive electronic units ranging from plasma Tv's to radar and communication systems. Marinas and RV parks have unregulated and unprotected power sources that may result in a power surge or groundout to anyone connecting to the system. Either condition can cause catastrophic damage to the sensitive electronic devices. The AEC products offer a full range of protection to include line conditioning and under/over voltage protection. These devices are currently under consideration by several of the largest RV Manufactures to be used as an OEM installed device. Currently the Marina Outfitter in the USA is evaluating these protective devices for use and sale. One of the other contract designs undertaken by AEC was an ultra bright strobe for use in the boating industry. This device is currently undergoing testing by the US Coast Guard and when approved, it will be required on every private and commercial vessel in US Waters.

Advanced Aerosol Technologies, Inc.

In October of this year USEI acquired Seaspray Aerosol Inc.. The name has since been changed to AATI this company is a specialty aerosol spray manufacturer with over 750 proprietary formulations as well as a growing capacity to act as a contract filler for a large variety of small and mid sized customers. Additionally two of the largest corporations of the US are currently in discussions with AATI to provide product on a very large scale. All EPA filings both federal and state are now current and all previously noted deficiencies have been corrected. Through the companies well developed sales network AATI has been approached by a world leading personal hair care product manufacturer to perform contract filling on a vast scale. Additionally AATI is actively pursuing government contracts on both the state and federal level. As an example we have been contacted by the NYC Fire Dept and the NYC Metropolitan Transit Authority for information on a variety of proprietary products.

All ISO 9001 policies, procedures, and quality manuals have been written and active training has commenced. We are scheduled to have a pre-inspection audit sometime in mid December of 2007 and are confident that our full ISO 9001 certification will be granted early in the 1st quarter of 2008.

Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006

Our current assets decreased approximately 62% from $2,155,692 at the year ended December 31, 2006 to $826,629 for the period ended September 30, 2007 and during this same period our total assets decreased by approximately 40% from $3,394,291 to $2,040,812. The change in assets is primarily attributed to the decrease of deferred debt costs due to the amortization of the loan fees directly related to the Dutchess financing. Total liabilities during this period increased by approximately 37% from $4,180,444 at the year ended December 31, 2006 to $5,707,140 at September 30, 2007. Our Shareholders' Deficit increased during this nine month period from $(786,153) at the year ended December 31, 2006 to $(3,709,505) at September 30, 2007. The increase in liabilities and Shareholders' Deficit were primarily attributed to the additional financing provided by White Knight a related party.

In comparing profit and loss during the three month period ended September 30, 2007 and 2006, our revenue and gross profits decreased by 61% and 95%, respectively from $456,126 and 188,642 to $177,640 and $9,587. The decrease in revenues and gross profit during this period were principally due to many of our dual fuel systems sold in previous quarters were still in production testing in the overseas market and AEC during this quarter AEC do to excessive demand on electronic components had extremely long lead times pushing orders out to the 4th quarter. Comparing these two periods, our operating expenses decreased 78% from $ 2,761,398 for the three months period ended September 30, 2006 to $610,542 for the period ended September 30, 2007. Our net loss for the three

months period decreased approximately 59% from $(2,281,659) for the three months ended September 30, 2006 to $(942,410) for the three month period ended September 30, 2007. The decreases in the Company's operating expenses and net loss are attributed to the expiration of 2 large consulting agreements and the reduction in staff for 2007.

Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006

In comparing profit and loss during the nine month period ended September 30, 2006 and 2007, our revenue decreased by 9% and our gross profits decreased by 79%, respectively from $881,849 and 419,406 to $803,886 and $86,476. The slight decrease in revenues during this period were principally due to the part shortage AEC ran into in the 3rd quarter. During these two periods, our operating expenses decreased 55% from $5,485,234 for the six month period ended September 30, 2006 to $2,485,919 for the period ended September 30, 2007. Our net loss for the nine month period decreased approximately 30% from $(6,823,895) for the nine months ended September 30, 2006 to $(4,757,363) for the nine month period ended September 30, 2007.

Item 3 Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) *Changes in internal controls.* There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during the end of the period covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II

Item 1 - Litigation

On November 14, 2003, Ambac International Corporation filed a lawsuit seeking $109,915 together with interest at the rate of 15% per annum. The suits stems from a contract for delivery of certain parts for use in the manufacturing of our systems from 2002. We maintain the parts were delivered substantially past the date of anticipated delivery and that the parts when received were defective. The Arbitrator awarded AMBAC a total of $ 259,440 including interest and court costs. Ambac and U.S. Energy Initiatives entered into a repayment agreement as of September 2007. The agreement allows the company to make monthly payments with interest to satisfy the debt.

On February 21, 2007, Boonville Natural Gas Corporation filed an action seeking $112,071. The suit alleges the Company breached it Contract to sell and install three Diesel/CNG conversion systems for use on Boonville's specially purchased vehicles. The suit seeks reimbursement for Boonevilles incurred damages of 3 specialized vehicles, cost of tanks and employee labor and travel expenses. The Warrick Superior Court No. 2 in the State of Indiana ordered in favor of Booneville gas for the principal amount of $73,642, attorney fees and expenses of $6,974 and pre-judgment interest and post-judgment interest at the highest rate allowed by law. On August 7, 2007 a foreign judgment was filed in Hillsborough County Clerk of the Circuit Court 13th Judicial Circuit.

On April 18, 2007 Discount Enterprises Inc. filed an action against U.S. Energy Initiatives (along with one other defendant) alleging that the defendants did not comply with the terms of the Contract in regards to the timeliness of installation and the vehicles that were converted had mechanical problems. A deposition date is set for November 2007.

On August 28, 2007 Mariann Bailey and David Bailey has filed a suit against U.S. Energy Initiatives and Automated Engineering with the Circuit Court of the Thirteenth Judicial Circuit in Hillsborough County in the principal amount of $120,398 together with court costs, attorneys fees and any expenses incurred in the proceedings. The Baileys claim that they as guarantors made payment on an alleged debt owed by AEC to Platinum Bank and that the debt was part of the stock purchase agreement entered into with U.S. Energy Initiatives. The Company filed a motion to dismiss in October 2007. The company takes the position that the debt paid by the Baileys was not included as a creditor on the Schedule included in the purchase agreement.

In August 2007,, Bud Industries an Automated Engineering vendor field a claim with the Circuit Court of the Thirteenth Judicial Circuit in Hillsborough County in the amount of $30,418 for goods sold and delivered. A Judgment was issued and the company has repaid approximately $15,049 of the outstanding debt.

On August 6, 2007Renewable Energy Resources, Inc. the predecessor or Internal Hydro International filed a suit with the Circuit Court of the Thirteenth Judicial Circuit in Hillsborough County for damages in the amount of $200,000 for a breach of contract. As of September 30, 2007 the outcome of the suit can not be determined.

From time to time the Company is subject to litigation relating to claims arising out of its operations in the ordinary course of business. Such claims, if successful, could exceed applicable insurance coverage. Other than what is currently disclosed herein the company is not currently a party to any material legal proceedings.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 - Defaults Upon Senior Securities

The Company did not meet the payment terms on the note payable to Peachtree National Bank through September 30, 2007. The note is secured by the common stock owned by Robby Davis and Ricky Davis, both employees of the Company. The provisions of the note allow for the note to become immediately and fully payable upon default of payments. While the bank had not initiated any remedy actions for the default as of September 30, 2007, the full balance of the note has been reclassified as a current liability for both years. The remaining principal balance as of September 30, 2007 was approximately $46,000. The company however did make a $5,000 payment in April 2007 that was applied towards the notes interest.

Item 4 - Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

None.

Item 6 - Exhibits

No.	Description of Exhibit
31.1	Certification by Chief Executive Officer pursuant to Sarbanes-Oxley Section 302 (filed herewith).
31.2	Certification by Chief Financial Officer pursuant to Sarbanes-Oxley Section 302 (filed herewith).
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

US ENERGY INITIATIVES CORPORATION

November 19, 2007	By:	/s/ PHILIP RAPPA Philip Rappa Chief Executive Officer (Principal Executive Officer)
November 19, 2007	By:	/s/ Michelle Hamilton Chief Financial Officer (Principal Financial and Accounting Officer)