

US ENERGY CORP
Form DEF 14A
April 29, 2013

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

SCHEDULE 14A

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

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

Check the appropriate box:

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

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

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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-2-

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

Notice of Annual Meeting of Shareholders

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

Date: Friday, June 28, 2013 Time: 8:30 AM MDT

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

- Purposes: 1. Elect the two nominees for directors identified in the accompanying proxy statement (Mark J. Larsen and Stephen V. Conrad) to serve until the third succeeding annual meeting of shareholders and their successors have been duly elected or appointed and qualified;
2. Ratify the appointment of Hein & Associates LLP as the independent auditor for fiscal year 2013;
3. To approve, on an advisory basis, the Company's executive compensation for 2012; and
4. For any other proper purpose in accordance with the Bylaws of the Company.

Record Date: May 3, 2013. The stock transfer books will not be closed.

We have enclosed a copy of our Annual Report for the fiscal year ended December 31, 2012 with this Notice of Annual Meeting of Shareholders and Proxy Statement. Please read the enclosed information carefully before completing and returning the enclosed proxy card.

The Securities and Exchange Commission ("SEC") requires companies to furnish proxy materials over the Internet, which reduces environmental impact as well as printing and mailing costs. Unless otherwise requested by the shareholder, we are mailing to each shareholder a Notice of Internet Availability of Proxy Materials (the "Notice of Availability") instead of mailing paper copies of the proxy materials. The Notice of Availability contains instructions on how to access the proxy materials on the Internet, and also on how to request a paper copy of the proxy materials. All stockholders 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; or
- Ø Via Telephone – Call the toll free number shown on the Notice of Availability; or
- Ø Via mail – Complete, sign and date your proxy card and mail it in the postage paid envelope.

If you owned shares in the Company at the close of business on May 3, 2013, 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 are a beneficial owner (i.e., your shares are held in “street name”), contact your broker, as soon as you receive this notice, 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 29, 2013

Secretary

Steven R. Youngbauer

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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 28, 2013

This proxy statement is provided in connection with a solicitation of proxies by the Board of Directors (the “Board”) of U.S. Energy Corp. (“U.S. Energy”, the “Company”, “we”, “our”, or “us”) for the annual meeting of shareholders to be held Friday, June 28, 2013, at 8:30 am MDT (the “Annual Meeting”), and at any adjournments of the meeting. On or about April 29, 2013, we began mailing the Notice of Availability, and we began mailing a full set of the proxy materials to stockholders 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 May 3, 2013 are entitled to receive notice of and to vote at the Annual Meeting. As of April 29, 2013, there were 27,682,602 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 with respect to those shares to be the shareholder of record 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 bank 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 a properly executed proxy 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 being elected, and to distribute the resulting number of votes among nominees in any proportion that the holder chooses.

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

Each of the other proposals, and any other matter which properly comes before the meeting in accordance with the Bylaws of the Company, will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast opposed to 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 in the enclosed form to provide you with the opportunity to vote on all matters scheduled to come before the meeting (as stated in the Notice of Annual Meeting which accompanies this Proxy Statement), whether or not you attend in person.

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

- For Proposal 1 - the nominees for director are Mark J. Larsen and Stephen V. Conrad;
- For Proposal 2 - ratification of appointment of Hein & Associates LLP as the independent auditor of the Company for the fiscal year 2013; and
 - For Proposal 3 – to approve, on an advisory basis, the Company's executive compensation for 2012.

Granting Your Proxy

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

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

Revoking Your Proxy

If you are a shareholder of record and submit a proxy, you may revoke it later or submit a revised proxy at any time before it is voted. You also may attend the meeting in person and vote by ballot, which would cancel any proxy you previously submitted. If you are a street name shareholder and you vote by proxy, you may change your vote by submitting new voting instructions to your bank, broker or 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 nominees to send proxy materials to beneficial owners, and we will reimburse those brokers and nominees for their reasonable expenses. We have not hired a solicitation firm for the meeting. Our employees and directors will solicit proxies by telephone or other means, if necessary; they will not be paid for these services.

Requirement and Deadlines for Shareholders to Submit Proxy Proposals

Under SEC rule 14a-8, if a shareholder wants us to include a proposal under that rule to be included in our proxy statement and presented at the annual meeting of shareholders to be held in June 2014, information about the proposal must be received by us in writing at least 120 calendar days in advance of the first anniversary of the delivery of these proxy materials, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501; Attention: Steven R. Youngbauer, Secretary. In addition, the Board amended the Company's Bylaws in March 2009 to adopt "advance notice" requirements that apply to all other proposals which shareholders may wish to have included in the Company's proxy statement, or to be stated in a notice for a special meeting of shareholders. Information about other proposals must be provided to the Company at least 90 calendar days before the meeting date. Please see "Advance Notice Requirements for Proposed Nominees to the Board and Other Proposals," below.

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 twelve months ended December 31, 2012, with exhibits, as filed with the SEC. Please address your request to Steven R. Youngbauer, Secretary, at U.S. Energy Corp., 877 North 8th West, Riverton, Wyoming 82501. You also may contact Mr. Youngbauer at: telephone 307.856.9271 or Fax 307.857.3050.

CORPORATE GOVERNANCE

Board of Directors, Audit, Compensation and Nominating Committees

General

We are committed to sound corporate governance principles. To evidence this commitment, the Board has adopted charters for its committees and a Code of Ethics. These documents, along with the Articles of Incorporation and Bylaws, provide the framework for our corporate governance. The charters of the Audit Committee, the Compensation Committee, and the Nominating Committee may be viewed at our web site (www.usnrg.com), at the tab "Investor Relations," then go to "Corporate Governance." The Code of Ethics also may be viewed at that location. If these documents are amended (or if the Code of Ethics is waived in a manner requiring disclosure under SEC rules), the amendments (and the occurrence of the waiver of the Code of Ethics), will be disclosed on the website as required by the SEC. Copies of each of these documents are available without charge to any person who requests them, by sending a

request to U.S. Energy Corp., Attn: Steven R. Youngbauer, Secretary, 877 North 8th West, Riverton, Wyoming 82501.

Board and Committee Independence

The Board is comprised of a majority of independent directors. Specifically, the Board has determined that Thomas R. Bandy, Stephen V. Conrad, Jerry W. Danni and Leo A. Heath 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 as CEO and Chairman. 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 of the Company and (iv) it provides for a more informed and expeditious decision-making process. Mark J. Larsen, also a director and President and Chief Operating Officer, is primarily responsible for execution of strategies and daily operations.

Meetings of the Board

The Board consists of seven members and they have primary responsibility for directing management of the business. During 2012, the Board held seven formal meetings, which were attended by all of the directors serving on the Board. The Board also approved one action by unanimous consent without conducting a formal meeting in addition to conferring informally on several other occasions during the year.

Attendance of Annual Meetings by Directors

Directors are encouraged, but not required, to attend annual meetings. All of the directors attended the June 29, 2012 annual meeting of shareholders.

Communications from Shareholders to the Board

The independent directors have established a process for collecting and organizing communications from shareholders. Shareholders may send communications to the Board by addressing their communications to Keith G. Larsen, Chief Executive Officer and Chairman of the Board, or Mark J. Larsen, President and Chief Operating Officer, at 877 North 8th West, Riverton, Wyoming 82501. Pursuant to this process, Keith G. Larsen and Mark J. Larsen will determine which of the communications address matters of substance and which should be considered by all directors, and will send those communications to all the directors for their consideration.

Audit Committee

To provide effective direction and review of fiscal matters, the Board has established an Audit Committee. The Audit Committee has the responsibility of reviewing our financial statements, exercising general oversight of the integrity and reliability of our accounting and financial reporting practices, and

monitoring the effectiveness of our internal control systems. The Audit Committee also recommends selection of auditing and internal audit firms and exercises general oversight of the activities of our independent auditors, principal financial and accounting officer and 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 2012. All Committee members either attended in person or by telephone. The Committee reviewed our financial statements for each of the quarters ended March 31, June 30 and September 30, 2012 and for the twelve months ended December 31, 2012 and discussed the financial statements with management and our independent audit firm. After the quarterly and year end meetings, the Committee met in executive session with our independent audit firm. The Committee also discussed with the independent audit firm the various matters required to be discussed in SAS 61 (Codification of Statements on Auditing Standards, AU 380). Based on the foregoing, the Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the twelve months ended December 31, 2012. During the year ended December 31, 2012, the Committee 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. All members of the Committee were present in person by telephone during the meeting where the internal controls were reviewed. 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, whose members are Jerry W. Danni (Chairman), Thomas R. Bandy, Stephen V. Conrad and Leo A. Heath. These members are independent under criteria established by NASDAQ. This Committee met formally on three occasions in 2012, and discussed compensation matters informally several times throughout the fiscal year. All Compensation Committee members attended all meetings of the Committee during 2012 either in person or by phone.

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

Compensation Committee Interlocks and Insider Participation

There were no Compensation Committee interlocks during fiscal year 2012.

Nominating Committee

The Company has a Nominating Committee, whose members are Leo A. Heath (Chairman) and Thomas R. Bandy. Both are independent directors under NASDAQ rules. The Nominating Committee is responsible for identifying and recommending to the Board nominees for election to the Board to be included in the Company’s Proxy Statement for the annual shareholders meeting and, when required, for election by the Board to fill vacancies in the Board occurring between annual shareholder meetings. The Nominating Committee met two times during 2012 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), Mark J. Larsen and Jerry W. Danni. The Executive Committee usually does not conduct formal meetings. The Executive Committee did not hold any meetings in 2012.

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, Stephen V. Conrad and Mark J. Larsen. The Hedging Committee has determined that the Company qualifies as an "end-user" of commodity derivatives for purposes of compliance with the Commodity Exchange Act.

Risk Oversight

The Company faces various risks in its business, including liquidity and operational risks. Our exposure to credit risk is relatively limited because we do not guarantee financial instruments or obligations of third parties. Liquidity risk is encountered in the context of balancing contractual commitments to spend capital, and also is involved in the Company's hedging commitments for oil and gas price protection. With the approval of the Hedging Committee, we entered into hedging commitments for the 2013 calendar year covering 600 barrels per day of oil production (approximately 50% of production at December 31, 2012) and 300 barrels per day of oil production from January 1, 2014 through June 30, 2014. Any change in hedging strategy will require 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:

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

Advance Notice Requirements for Shareholder Proposals

For Proposed Nominees to the Board

When needed, as determined by the Board, the Nominating Committee considers and recommends to the Board individuals who may be suitable to be nominated to serve as directors. The Nominating Committee has adopted a written charter regarding the Company's director nomination process. The charter requires the Committee to consider only individuals who possess the business and financial skills necessary to oversee and guide the Company, if elected.

Pursuant to its charter, the Nominating Committee has adopted a policy for consideration of any director candidates recommended by shareholders, and may (or may not) recommend to the Board that candidate(s) be put on an Annual Meeting election slate and identified in the Company's proxy statement, if:

- At least 150 calendar days before the meeting date, the shareholder must request in writing that the Nominating Committee consider an individual for inclusion as a director nominee in the next proxy statement for an Annual Meeting. The shareholder must identify the individual and provide background information about the individual sufficient for the Committee to evaluate the suggested nominee's credentials. Such requests should be addressed to Keith G. Larsen, Chief Executive Officer and Chairman of the Board, who will forward the requests to the Nominating Committee.
- The candidate must meet certain specific minimum qualifications: substantial experience in top or mid-level management (or serving as a director) of public oil and gas or mineral exploration/development companies, with particular emphasis on understanding and evaluating oil and gas or mineral properties for either financing, exploration and development, or joint venturing with industry partners; contacts with oil and gas or mining industry companies to develop strategic partnerships or investments with the Company; and the ability to understand and analyze complex financial statements. A shareholder-recommended candidate also must possess a good business and personal background, which the Nominating Committee will independently verify. These same categories of qualifications will be used by the Nominating Committee in considering any nominee candidate, whether recommended by a shareholder, an officer, or another director.
- The Company must be provided with all information relating to a shareholder recommended candidate that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Exchange Act");
- The shareholder must inform the Company whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of the recommending shareholder or the candidate with respect to stock of the Company, and whether any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock) has been made by or on behalf of such holder or candidate, the effect or intent of any of the foregoing being to mitigate loss to, or to manage the risk of stock price changes for, such holder or candidate or to increase or decrease the voting power or pecuniary or economic interest of such holder or candidate with respect to stock of the Company; and
- The shareholder must provide the Company with the following representations: (i) that he, she or it is a holder of record of stock of the Company entitled to vote at a meeting of stockholders and

intends to appear in person or by proxy at the meeting to propose such nomination; and (ii) whether the shareholder or the beneficial owner, if any, intends or is part of a group which intends to solicit proxies from other stockholders in support of such nomination (if the Board determines to include the candidate in the Company's proxy statement).

These procedures also are mandated by the Company's Bylaws, as amended in April 2009.

All director candidates recommended by a shareholder, or a director or officer, will be evaluated by the Nominating Committee (which is comprised solely of independent directors) in good faith. Director nominee candidates must be recommended for the Board selection by the Nominating Committee if they are to be included in the Company's proxy statement. However, a majority vote of the Board in favor of a director nominee must also include a majority vote of the independent directors for the Company to include that individual's name in an Annual Meeting notice and identify that individual in the Company's proxy statement for that Annual Meeting.

For the Annual Meeting scheduled for June 28, 2013, the Nominating Committee has not received a request from any shareholder for consideration of a nominee candidate.

For Other Shareholder Proposals

For any other matter to be considered as a proper purpose for consideration by the shareholders at an annual or special meeting (referred to as an "Additional Purpose"), each of the conditions set forth below must be satisfied in order for the Additional Purpose to be considered at the meeting. If the conditions are satisfied, an Additional Purpose would be set forth in either the Company's proxy statement, or a proxy statement prepared by the shareholder or shareholders requesting that the matter be voted upon by all shareholders. Pursuant to the Company's Bylaws, only the holder or holders of at least 50% of the outstanding shares may demand that the Company convene a special meeting of shareholders.

The conditions also must be met in order for a shareholder to make a motion from the floor of a meeting to nominate a person for election to the Board, if such person has not been included as a director candidate in the Company's notice of the meeting.

At least 90 calendar days before the date for the meeting, the requesting shareholder must give written notice to the Secretary of the Company, providing:

- (a) a brief description of the Additional Purpose which the shareholder wishes to present to the meeting;
- (b) the reason why the Additional Purpose is sought to be presented at the meeting;
- (c) a statement of any material interest which the requesting shareholder or its beneficial owners have in the Additional Purpose;
- (d) as to the requesting shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal to nominate or another proposal is made, a statement of (1) the requesting shareholder's and such beneficial owner's name and address, (2) the number of shares of the Company owned of record or beneficially by the requesting shareholder and such beneficial owner, (3) the name of each nominee holder of shares owned beneficially but not of record by the requesting shareholder and the number of shares

of stock held by each such nominee holder, and (4) whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of the requesting shareholder with respect to stock of the Company and whether any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock) has been made by or on behalf of the requesting shareholder, the effect or intent of any of the foregoing being to mitigate loss to, or to manage the risk of stock price changes for, such shareholder or to increase or decrease the voting power or pecuniary or economic interest of the requesting shareholder with respect to stock of the Company;

(e) a description of all agreements, arrangements or understandings between the requesting shareholder and any other person or persons (including their names) in connection with the proposal of the Additional Purpose;

(f) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination and a representation whether the shareholder or the beneficial owner, if any, intends or is part of a group which intends to solicit proxies from other stockholders in support of such nomination; and

(g) the text of any amendment to the Articles of Incorporation of the Company, or the Bylaws of the Company, which would be part of the Additional Purpose.

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 29, 2013. This information is based on SEC reports or as otherwise known to us. Beneficial ownership includes the shares underlying options that are exercisable within 60 days of April 29, 2013.

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

The ESOP Trustees, Keith G. Larsen and Mark J. Larsen, exercise voting powers over non-allocated ESOP shares and dispositive powers over all ESOP shares. It should be noted that voting and dispositive powers over certain shares are shared by one or more of the listed holders; those shares are reported for each holder having a shared interest.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Total	
	Voting Rights	Dispositive Rights	Beneficial Ownership	Percent of Class (1)
Name and Position of Directors and Named Executive Officers				
Keith G. Larsen				
	Nine Months Ended			
	September 30,			
(Thousands of Dollars)	2008	2007		\$ Change

				%
				Change
Selling, general, and administrative expenses (SG&A)	\$ 27,995	\$ 25,068	\$ 2,927	11.7%
<i>% of Net sales</i>	<i>11.2%</i>	<i>11.0%</i>		

The increase in SG&A expenses is principally due to increases in advertising costs of \$461,000 and travel and supplies of \$337,000 primarily related to the Construction Expo trade show and the International Trade Fair for Water Sewage Refuse Recycling, both of which are held every three years. In addition, accrued profit sharing based on increased operating results rose by \$766,000, and compensation and related costs increased \$698,000. Also, amortization expense increased \$227,000 as a result of the inclusion of Gorman-Rupp Europe B.V. for nine months in 2008.

Other Income

<i>(Thousands of Dollars)</i>	Nine Months Ended September 30,		\$ Change	% Change
	2008	2007		
Other income	\$ 2,003	\$ 1,643	\$ 360	21.9%
<i>% of Net sales</i>	<i>0.8%</i>	<i>0.7%</i>		

The increase in other income is primarily due to the final accounting for insurance proceeds related to property damage caused by flooding of a facility at the Company's Mansfield Division in August 2007.

Table of Contents**PART I CONTINUED****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED****Net Income**

<i>(Thousands of Dollars)</i>	Nine Months Ended September 30,		\$ Change	% Change
	2008	2007		
Income before income taxes	\$34,230	\$26,913	\$7,317	27.2%
<i>% of Net sales</i>	<i>13.7%</i>	<i>11.8%</i>		
Income taxes	\$11,798	\$ 9,808	\$1,990	20.3%
<i>Effective tax rate</i>	<i>34.5%</i>	<i>36.4%</i>		
Net income	\$22,432	\$17,105	\$5,327	31.1%
<i>% of Net sales</i>	<i>9.0%</i>	<i>7.5%</i>		
Earnings per share	\$ 1.34	\$ 1.02	\$ 0.32	31.4%

The decline in the effective tax rate was due to a deferred tax benefit of \$170,000 recorded in 2008, and a lower effective foreign tax rate due to the inclusion in 2008 of Gorman-Rupp Europe B.V. as previously noted. Earnings per share reflect the five-for-four stock split distributed December 10, 2007.

Liquidity and Sources of Capital

<i>(Thousands of Dollars)</i>	Nine Months Ended September 30,		\$ Change	% Change
	2008	2007		
Net cash provided by operating activities	\$27,398	\$27,698	\$ (300)	(1.1)%
Net cash used for investing activities	6,305	13,224	(6,919)	(52.3)
Net cash used for financing activities	5,010	4,810	200	4.2

Cash provided by operating activities resulted primarily from net income plus noncash charges.

Investing activities for the nine months ended September 30, 2008 primarily consisted of capital expenditures related to the consolidation and expansion of the Mansfield, Ohio facilities of \$7.3 million and machinery and equipment additions of \$5.7 million, partially offset by proceeds from short-term investments of \$5.6 million. Total capital expenditures for the previously announced consolidation and expansion of the Mansfield, Ohio facilities of \$9.7 million have been incurred as of September 30, 2008.

Financing activities consisted of payments for dividends, which were \$5.0 million and \$4.8 million for the nine months ended September 30, 2008 and 2007, respectively. The Company continues to finance its capital expenditures and working capital requirements principally through internally generated funds, available unsecured lines of credit and proceeds from short-term investments. The ratio of current assets to current liabilities was 4.0 to 1 at September 30, 2008 and 3.9 to 1 at September 30, 2007.

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PART I CONTINUED

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK

The Company's foreign operations do not involve material risks due to their relative size, both individually and collectively. The Company is not exposed to material market risks as a result of its export sales or operations outside of the United States. Export sales are denominated predominately in U.S. Dollars and made on open account or under letters of credit.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. An evaluation was carried out under the supervision and with the participation of the Company's Management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Based on that evaluation, the principal executive officer and the principal financial officer have concluded that the Company's disclosure controls and procedures did maintain effective internal control over financial reporting as of September 30, 2008.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's disclosure controls and procedures that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to the date of the evaluation, there have been no significant changes in the Company's disclosure controls and procedures that could significantly affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material changes from the legal proceedings previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information regarding this subject was previously reported to the Securities and Exchange Commission on July 17, 2008 on Form 4 - Statement of Changes in Beneficial Ownership of Securities which is incorporated herein. (See accompanying Exhibit 99.)

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibits 3 and 4	(articles of incorporation) are incorporated herein by this reference from Exhibits (3) and (4) of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
Exhibits 3, 4 and 10	(by-laws; instruments defining the rights of security holders, including indentures; and material contracts) are incorporated herein by this reference from Exhibits (3), (4) and (10) of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.
Exhibit 31.1	Certification of Jeffrey S. Gorman, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Robert E. Kirkendall, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
Exhibit 99	Form 4 - Statement of Changes in Beneficial Ownership of Securities filed with the Securities and Exchange Commission on July 17, 2008.

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.

The Gorman-Rupp Company
(Registrant)

Date: October 27, 2008

By: /s/Judith L. Sovine

Judith L. Sovine
Corporate Treasurer

By: /s/Robert E. Kirkendall

Robert E. Kirkendall
Senior Vice President and
Chief Financial Officer