

BADGER METER INC
Form 10-Q
October 26, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

for the quarterly period ended September 30, 2011

BADGER METER, INC.

4545 W. Brown Deer Road

Milwaukee, Wisconsin 53223

(414) 355-0400

A Wisconsin Corporation

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IRS Employer Identification No. 39-0143280

Commission File No. 001-06706

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 13, 2011, there were 15,116,519 shares of Common Stock outstanding with a par value of \$1 per share.

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Quarterly Report on Form 10-Q for the Period Ended September 30, 2011

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Special Note Regarding Forward Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, as well as other information provided from time to time by Badger Meter, Inc. (the Company) or its employees, may contain forward looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. The words anticipate, believe, estimate, expect, think, should, could, objective or similar expressions are intended to identify forward looking statements. All such forward looking statements are based on the Company's then current views and assumptions and involve risks and uncertainties that include, among other things:

the continued shift in the Company's business from lower cost, manually read meters toward more expensive, value-added automatic meter reading (AMR) systems, advanced metering infrastructure (AMI) systems and the new advanced metering analytics (AMA) systems that offer a complete solution to customers' metering needs;

the success or failure of newer Company products;

changes in competitive pricing and bids in both the domestic and foreign marketplaces, and particularly in continued intense price competition on government bid contracts for lower cost, manually read meters;

the actions (or lack thereof) of the Company's competitors;

changes in the Company's relationships with its alliance partners, primarily its alliance partners that provide AMR/AMI connectivity solutions, and particularly those that sell products that do or may compete with the Company's products;

changes in the general health of the United States and foreign economies, including to some extent such things as the length and severity of global economic downturns, the ability of municipal water utility customers to authorize and finance purchases of the Company's products, the Company's ability to obtain financing, housing starts in the United States, and overall industrial activity;

the timing and impact of government programs to stimulate national and global economies;

changes in the cost and/or availability of needed raw materials and parts, such as volatility in the cost of brass castings as a result of fluctuations in commodity prices, particularly for copper and scrap metal at the supplier level, foreign-sourced electronic components as a result of currency exchange fluctuations and/or lead times, and plastic resin as a result of changes in petroleum and natural gas prices;

the Company's expanded role as a prime contractor for providing complete AMR/AMI/AMA systems to governmental entities, which brings with it added risks, including but not limited to, the Company's responsibility for subcontractor performance, additional costs and expenses if the Company and its subcontractors fail to meet the timetable agreed to with the governmental entity, and the Company's expanded warranty and performance obligations;

the Company's ability to successfully integrate acquired businesses or products;

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changes in foreign economic conditions, particularly currency fluctuations in the United States dollar, the Euro and the Mexican peso;

the loss or disruption of certain single-source suppliers; and

changes in laws and regulations, particularly laws dealing with the use of lead (which can be used in the manufacture of certain meters incorporating brass housings) and the United States Federal Communications Commission rules affecting the use and/or licensing of radio frequencies necessary for AMR/AMI/AMA products.

All of these factors are beyond the Company's control to varying degrees. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward looking statements and are cautioned not to place undue reliance on such forward looking statements. The forward looking statements made in this document are made only as of the date of this document and the Company assumes no obligation, and disclaims any obligation, to update any such forward looking statements to reflect subsequent events or circumstances.

Table of Contents**Part I Financial Information****Item 1 Financial Statements****BADGER METER, INC.****Consolidated Condensed Balance Sheets**

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|--|--------------------------------------|----------------------|
| | (In thousands) | |
| Assets | | |
| Current assets: | | |
| Cash | \$ 5,787 | \$ 3,089 |
| Receivables | 43,195 | 40,429 |
| Inventories: | | |
| Finished goods | 12,401 | 9,800 |
| Work in process | 10,282 | 15,284 |
| Raw materials | 25,102 | 23,232 |
| Total inventories | 47,785 | 48,316 |
| Prepaid expenses and other current assets | 2,992 | 2,381 |
| Deferred income taxes | 3,417 | 3,122 |
| Total current assets | 103,176 | 97,337 |
| Property, plant and equipment, at cost | 143,822 | 143,954 |
| Less accumulated depreciation | (77,452) | (77,866) |
| Net property, plant and equipment | 66,370 | 66,088 |
| Intangible assets, at cost less accumulated amortization | 34,323 | 34,170 |
| Other assets | 6,439 | 7,449 |
| Deferred income taxes | 1,006 | 1,658 |
| Goodwill | 9,162 | 9,162 |
| Total assets | \$ 220,476 | \$ 215,864 |
| Liabilities and shareholders equity | | |
| Current liabilities: | | |
| Short-term debt | \$ 2,680 | \$ 12,878 |
| Payables | 13,938 | 11,159 |
| Accrued compensation and employee benefits | 6,797 | 7,143 |
| Warranty and after-sale costs | 1,004 | 889 |
| Income and other taxes | 1,498 | 610 |
| Total current liabilities | 25,917 | 32,679 |
| Other long-term liabilities | 946 | 2,472 |
| Accrued non-pension postretirement benefits | 6,029 | 5,972 |
| Other accrued employee benefits | 4,842 | 6,358 |
| Commitments and contingencies (Note 6) | | |

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| | | |
|--|------------|------------|
| Shareholders' equity: | | |
| Common stock | 21,289 | 21,259 |
| Capital in excess of par value | 38,866 | 37,582 |
| Reinvested earnings | 167,482 | 156,101 |
| Accumulated other comprehensive loss | (11,727) | (13,137) |
| Less: Employee benefit stock | (1,485) | (1,536) |
| Treasury stock, at cost | (31,683) | (31,886) |
| | | |
| Total shareholders' equity | 182,742 | 168,383 |
| | | |
| Total liabilities and shareholders' equity | \$ 220,476 | \$ 215,864 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents**BADGER METER, INC.****Consolidated Condensed Statements of Operations**

| | Three Months Ended September 30, (Unaudited) | | Nine Months Ended September 30, (Unaudited) | |
|---|--|------------|---|------------|
| | 2011 | 2010 | 2011 | 2010 |
| (In thousands except share and per share amounts) | | | | |
| Net sales | \$ 69,698 | \$ 75,702 | \$ 202,205 | \$ 211,791 |
| Cost of sales | 46,918 | 47,748 | 131,768 | 133,605 |
| Gross margin | 22,780 | 27,954 | 70,437 | 78,186 |
| Selling, engineering and administration | 14,791 | 14,518 | 44,933 | 43,022 |
| Operating earnings | 7,989 | 13,436 | 25,504 | 35,164 |
| Interest expense (income) | (87) | 95 | 121 | 275 |
| Earnings before income taxes | 8,076 | 13,341 | 25,383 | 34,889 |
| Provision for income taxes | 1,196 | 4,318 | 7,409 | 12,485 |
| Net earnings | \$ 6,880 | \$ 9,023 | \$ 17,974 | \$ 22,404 |
| Per share amounts: | | | | |
| Earnings per share: | | | | |
| Basic | \$ 0.46 | \$ 0.61 | \$ 1.20 | \$ 1.50 |
| Diluted | \$ 0.46 | \$ 0.60 | \$ 1.19 | \$ 1.49 |
| Dividends declared - Common stock | \$ 0.16 | \$ 0.14 | \$ 0.44 | \$ 0.38 |
| Shares used in computation of earnings per share: | | | | |
| Basic | 14,989,366 | 14,910,497 | 14,959,202 | 14,897,901 |
| Impact of dilutive securities | 69,109 | 96,068 | 84,339 | 101,285 |
| Diluted | 15,058,475 | 15,006,565 | 15,043,541 | 14,999,186 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents**BADGER METER, INC.****Consolidated Condensed Statements of Cash Flows**

| | Nine Months Ended September 30, (Unaudited) (In thousands) | |
|--|---|-----------|
| | 2011 | 2010 |
| Operating activities: | | |
| Net earnings | \$ 17,974 | \$ 22,404 |
| Adjustments to reconcile net earnings to net cash provided by (used for) operations: | | |
| Depreciation | 5,458 | 5,211 |
| Amortization | 1,759 | 1,213 |
| Gain on legal settlement | 0 | (740) |
| Deferred income taxes | (66) | 2,158 |
| Noncurrent employee benefits | 1,476 | 2,399 |
| Contribution to pension plan | 0 | (4,700) |
| Stock-based compensation expense | 836 | 918 |
| Changes in: | | |
| Receivables | (2,636) | (16,964) |
| Inventories | 1,667 | (7,858) |
| Prepaid expenses and other current assets | (1,337) | (128) |
| Liabilities other than debt | 1,184 | 9,751 |
| Total adjustments | 8,341 | (8,740) |
| Net cash provided by operations | 26,315 | 13,664 |
| Investing activities: | | |
| Property, plant and equipment expenditures | (3,696) | (6,962) |