

BADGER METER INC
Form 10-K
February 20, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2013

BADGER METER, INC.

4545 W. Brown Deer Road

Milwaukee, Wisconsin 53223

(414) 355-0400

A Wisconsin Corporation

IRS Employer Identification No. 39-0143280

Commission File No. 001-06706

The Company has the following classes of securities registered pursuant to Section 12(b) of the Act:

Title of class:	Name of each exchange on which registered:
Common Stock	New York Stock Exchange
Common Share Purchase Rights	New York Stock Exchange

The Company does not have any securities registered pursuant to Section 12(g) of the Act.

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Company (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 Company 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act: (Check one).

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Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the Common Stock held by non-affiliates of the Company as of June 28, 2013 was \$613,399,995. For purposes of this calculation only, (i) shares of Common Stock are deemed to have a market value of \$44.55 per share, the closing price of the Common Stock as reported on the New York Stock Exchange on June 28, 2013, and (ii) each of the Company's executive officers and directors is deemed to be an affiliate of the Company.

As of February 6, 2014, there were 14,406,540 shares of Common Stock outstanding with a par value of \$1 per share.

Portions of the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant's fiscal year, are incorporated by reference from the definitive Proxy Statement into Part III of this Annual Report on Form 10-K.

Special Note Regarding Forward Looking Statements

Certain statements contained in this Annual Report on Form 10-K, 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” and “objective” or similar expressions are used 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. Some risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward looking statements include those described in Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 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 advanced metering analytics (AMA) systems that offer more comprehensive solutions 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 radio 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;
- unusual weather and other natural phenomena, including related economic and other ancillary effects of any such events;
- the timing and impact of government programs to stimulate national and global economies, as well as the impact of government budget cuts or partial shutdowns of governmental operations;
- 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 connectivity 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;
- changes in foreign economic conditions, particularly currency fluctuations in the United States dollar, the Euro and the Mexican peso;
- the failure of the Company’s technology products to operate as intended;
- the inability to protect the Company’s proprietary rights to its software and related products;
- the loss 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 radio 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 contained in this

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Annual Report on Form 10-K 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.

PART I

ITEM 1. BUSINESS

Badger Meter, Inc. (the “Company”) is a leading innovator, manufacturer and marketer of products incorporating flow measurement and control technologies serving markets worldwide. The Company was incorporated in 1905.

Throughout this 2013 Annual Report on Form 10-K, the words “we”, “us” and “our” refer to the Company.

Available Information

The Company's Internet address is <http://www.badgermeter.com>. The Company makes available free of charge (other than an investor's own Internet access charges) through its Internet website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, on the same day they are electronically filed with, or furnished to, the Securities and Exchange Commission. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Market Overview, Products, Systems and Solutions

An innovator in flow measurement and control products, the Company serves water utilities, municipalities, and commercial and industrial customers worldwide. Measuring water, oil, chemicals and other fluids, the Company's products are known for accuracy, long-lasting durability and for providing valuable and timely measurement data. The Company's product lines fall into three categories: sales of water meters and related technologies to municipal water utilities (municipal water), sales of meters to various industries for water and other fluids (industrial flow), and sales of gas meter radios and concrete vibrators to unique markets (specialty products). The Company estimates that over 75% of its products are used in water applications when all categories are grouped together.

Municipal water, the largest category by sales volume, includes mechanical and electronic (static) water meters and related technologies and services used by water utilities as the basis for generating water and wastewater revenues. The key market for the Company's water meter products is North America, primarily the United States, because most meters are designed and manufactured to conform to standards promulgated by the American Water Works Association. Sales of water meters and related technologies and services are commonly referred to as residential or commercial water meter sales, the latter referring to larger sizes of meters.

Industrial flow includes products sold worldwide to measure and control materials flowing through a pipe or pipeline including water, air, steam, oil, and other liquids and gases. These meters and valves are used in a variety of applications, such as water/wastewater; heating, ventilating and air conditioning (HVAC); oil and gas; chemical and petrochemical; food and beverage; and pharmaceutical production.

Specialty products include sales of radio technology to natural gas utilities for installation on their gas meters, and concrete vibrators.

Residential and commercial water meters are generally classified as either manually read meters or remotely read meters via radio technology. A manually read meter consists of a water meter and a register that gives a visual meter reading display. Meters equipped with radio transmitters (endpoints) use encoder registers to convert the measurement data from the meter into an encrypted digital format which is then transmitted via radio frequency to a receiver that collects and formats the data appropriately for water utility billing systems. Mobile systems, referred to as automatic

meter reading (AMR) systems, have been the primary technology deployed by water utilities over the past two decades, providing accurate and cost-effective billing data. In an AMR system, a vehicle equipped for meter reading purposes, including a radio receiver, computer and reading software, collects the data from utilities' meters.

Fixed network advanced metering infrastructure (AMI) systems continue to build interest among water utilities. These systems incorporate a network of permanent data collectors or gateway receivers that are always active or listening for the radio transmission from the utilities' meters. AMI systems eliminate the need for utility personnel to drive through service territories to collect meter reading data. These systems provide the utilities with more frequent and diverse data from the utilities' meters at specified intervals.

In 2011, the Company introduced what it believes is the next generation of metering technology, advanced metering analytics (AMA), along with a host of automated utility management tools to facilitate the ability of water and gas utilities to increase their productivity and revenue, as well as proactively utilize their data. AMA is comprised of ReadCenter® Analytics software coupled with ORION® SE two-way fixed network or GALAXY® one-way fixed network technology, which is complemented by a family of highly accurate and reliable water meters.

The ORION SE system can operate in either a mobile or fixed network mode depending on the deployment needs of the utility. For example, a water or gas utility can begin deployment in mobile mode and transition to a fixed network system without visiting the endpoint. Once deployed, if the system is operating in fixed network mode and the gateway data collector stops functioning, the endpoint will continue to send data that can be captured by a mobile system. Once the gateway data collector functions again, the utility will again receive data through the fixed network system.

In January 2014, the Company launched its new BEACON AMA system. BEACON AMA combines the BEACON analytical software suite with proven ORION AMI technology using fixed and cellular networks in a managed solution, improving utilities' visibility of their water consumption and reducing the need for costly infrastructure. With the release of BEACON AMA, Badger Meter also became the first major worldwide water meter company to release a cost-effective cellular-based solution for system wide deployment. BEACON AMA enables two-way communication between the water meter and the meter reading system.

The BEACON AMA secure, hosted software suite includes a customizable dashboard, the ability to establish alerts for specific conditions, and consumer engagement tools that allow end water customers to view and manage their water usage activity. Benefits to the utility include faster leak detection, easier revenue management, the ability to quantify the effects of its water conservation efforts, easier compliance reporting, and improved customer service.

The Company's net sales and corresponding net earnings depend on unit volume and product mix, with the Company generally earning higher margins on meters equipped with radio technology. In addition to selling its proprietary radio products, including the ORION radio technologies and GALAXY AMI/AMA system, the Company also remarkets the Itron® radio products under a license and distribution agreement with Itron. The Company's proprietary radio products generally result in higher margins than the remarketed, non-proprietary technology products. The Company also sells registers and endpoints separately to customers who wish to upgrade their existing meters in the field.

The proprietary ORION endpoint technology has been licensed to other technology providers on a non-exclusive basis, including those providing radio products that communicate over power lines, broadband networks, and proprietary radio frequency networks, allowing ORION a distinct advantage in the radio solutions market. In addition, the ORION universal gateway receiver transmits data over a variety of public wireless networks, which allows for strategic deployments, such as monitoring large commercial users.

Water meter replacement and the adoption and deployment of new technology comprise the majority of water meter product sales, including radio products. To a much lesser extent, housing starts also contribute to the new product sales base. Over the last decade, there has been a growing trend in the conversion from manually read water meters to radio technology. This conversion rate is accelerating and contributes to an increased water meter and radio solutions base of business. The Company estimates that less than 35% of water meters installed in the United States have been converted to a radio solutions technology. The Company's strategy is to fulfill customers' metering expectations and requirements with its proprietary meter reading systems or other systems available through its alliance partners in the marketplace.

Industrial flow and specialty products serve flow measurement and control applications across a broad industrial spectrum. Specialized communication protocols that control the entire flow measurement process drive these markets.

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The Company's specific flow measurement and control applications and technologies serve the flow measurement market through both customized and standard precision flow measurement technologies.

The Company's products are primarily manufactured and assembled in the Company's Milwaukee, Wisconsin; Racine, Wisconsin; Tulsa, Oklahoma; Scottsdale, Arizona; Nogales, Mexico; Neuffen, Germany; Brno, Czech Republic; and Bern, Switzerland facilities.

The Company's products are sold throughout the world through employees, resellers and representatives. Depending on the customer mix, there can be a moderate seasonal impact on sales, primarily relating to higher sales of certain municipal water products during the spring and summer months. No single customer accounts for more than 10% of the Company's sales.

Competition

There are competitors in each category in which the Company sells its products, and the competition varies from moderate to intense. Major competitors for utility water meters include Sensus USA Inc., Neptune Technology Group, Inc., Master Meter, Inc. and Mueller Water Products, Inc. Together with Badger Meter, it is estimated these companies sell in excess of 90% of the meters in the North American market, which has been insulated from other competitors due to the nature of the mechanical technology used and the standards promulgated by the American Water Works Association. The Company, as well as some of its competitors, have introduced various forms of static meters (no moving parts) in recent years and have seen sales of those products begin to grow. As the global water metering market begins to adopt electronic (static) technology, Kamstrup Water Metering, Diehl Metering and Itron, Inc. are also potential competitors.

The Company's primary competitors for water utility radio products are Itron, Inc., Neptune Technology Group, Inc. and Sensus USA Inc. While the Company sells its own proprietary radio systems (ORION and GALAXY), it is also a reseller of the Itron products. A number of the Company's competitors in certain markets have greater financial resources than the Company. However, the Company believes it currently provides the leading technology in water meters and radio water systems. As a result of significant research and development activities, the Company enjoys favorable patent positions and trade secret protections for several of its technologies and products.

There are many competitors in the industrial flow and specialty products markets due to the various markets and applications being served. For example, major competitors in the industrial flow markets include Emerson Electric Company, Krohne Messtechnik GmbH, Endress & Hauser Management AG, and Yokogawa Electric Corporation. In the HVAC market, the key competitor is Onicon Inc. In upstream oil and gas, Cameron International Corporation is the primary competitor. The Company competes with AW-Lake Company in the measurement of on-machine hydraulic fluids. With the acquisition of Racine Federated, Inc. in January 2012, the Company has a large portfolio of metering technologies to compete in these markets.

Backlog

The Company's total backlog of unshipped orders at December 31, 2013 and 2012 was \$31.7 million and \$34.8 million, respectively. The backlog is comprised of firm orders and signed contractual commitments, or portions of such commitments that call for shipment within 12 months. Backlog can be significantly affected by the timing of orders for large projects and the amounts can vary due to the timing of work performed.

Raw Materials

Raw materials used in the manufacture of the Company's products include purchased castings made of metal or alloys (such as brass, which uses copper as its main component, aluminum, stainless steel and cast iron), plastic resins, glass, microprocessors and other electronic subassemblies and components. There are multiple sources for these raw materials, but the Company relies on single suppliers for certain brass castings and certain electronic subassemblies. The Company believes these items would be available from other sources, but that the loss of certain suppliers would result in a higher cost of materials, delivery delays, short-term increases in inventory and higher quality control costs in the short term. The Company carries business interruption insurance on key suppliers. The Company's purchases of raw materials are based on production schedules, and as a result, inventory on hand is generally not exposed to price fluctuations. World commodity markets and currency exchange rates may also affect the prices of material purchased in the future. The Company does not hold significant amounts of precious metals.

Research and Development

Expenditures for research and development activities relating to the development of new products, the improvement of existing products and manufacturing process improvements were \$10.5 million in 2013 compared to \$9.6 million in 2012 and \$8.1 million in 2011. Research and development activities are primarily sponsored by the Company. The Company also engages in some joint research and development with other companies.

Intangible Assets

The Company owns or controls several trade secrets and many patents, trademarks and trade names in the United States and other countries that relate to its products and technologies. No single patent, trademark, trade name or trade secret is material to the Company's business as a whole.

Environmental Protection

The Company is subject to contingencies related to environmental laws and regulations. The Company is named as one of many potentially responsible parties in two landfill lawsuits. The landfill sites are impacted by the Federal Comprehensive Environmental Response, Compensation and Liability Act and other environmental laws and regulations. At this time, the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based on the Company's assessment of its limited past involvement with these landfill sites as well as the substantial involvement of and government focus on other named third parties with these landfill sites. However, due to the inherent uncertainties of such proceedings, the Company cannot predict the ultimate outcome of any of these matters. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2013, 2012 and 2011 were not material.

Employees

The Company and its subsidiaries employed 1,360 persons at December 31, 2013, 122 of whom are covered by a collective bargaining agreement with District 10 of the International Association of Machinists. The Company is currently operating under a five-year contract with the union, which expires on October 31, 2016. The Company believes it has good relations with the union and all of its employees.

The following table sets forth certain information regarding the Executive Officers of the Registrant.

Name	Position	Age at 2/28/2014
Richard A. Meeusen	Chairman, President and Chief Executive Officer	59
Richard E. Johnson	Senior Vice President — Finance, Chief Financial Officer and Treasurer	59
Fred J. Begale	Vice President — Engineering	49
William R. A. Bergum	Vice President — General Counsel and Secretary	49
Gregory M. Gomez	Vice President — Business Development	49
Horst E. Gras	Vice President — International Operations	58
Raymond G. Serdynski	Vice President — Manufacturing	57
Beverly L. P. Smiley	Vice President — Controller	64
Kimberly K. Stoll	Vice President — Sales and Marketing	47

There are no family relationships between any of the executive officers. Officers are elected annually at the first meeting of the Board of Directors held after each annual meeting of the shareholders. Each officer holds office until his or her successor has been elected or until his or her death, resignation or removal. There is no arrangement or understanding between any executive officer and any other person pursuant to which he or she was elected as an officer.

Mr. Meeusen has served as Chairman, President and Chief Executive Officer for more than five years.

Mr. Johnson has served as Senior Vice President - Finance, Chief Financial Officer and Treasurer for more than five years.

Mr. Begale was elected Vice President - Engineering in December 2010. Mr. Begale served as Vice President - Business Development from April 2009 to December 2010, and Director - Business Development from March 2007 to

April 2009.

Mr. Bergum has served as Vice President - General Counsel and Secretary for more than five years.

Mr. Gomez was elected Vice President - Business Development in December 2010, and served as Vice President - Engineering from February 2008 to December 2010.

Mr. Gras has served as Vice President - International Operations for more than five years.

Mr. Serdyski has served as Vice President - Manufacturing for more than five years.

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Ms. Smiley has served as Vice President - Controller for more than five years.

Ms. Stoll was elected Vice President - Sales and Marketing in February 2012. Ms. Stoll served as Vice President - Marketing from April 2009 to February 2012, and served as Director - Utility Marketing from August 2008 to April 2009.

Foreign Operations and Export Sales

The Company distributes its products through employees, resellers and representatives throughout the world. Additionally, the Company has a sales, distribution and manufacturing facility in Neuffen, Germany; sales and customer service offices in Mexico, Singapore, China and Slovakia; manufacturing facilities in Nogales, Mexico; and manufacturing and sales facilities in Brno, Czech Republic and Bern, Switzerland. The Company exports products from the United States that are manufactured in Milwaukee, Wisconsin; Racine, Wisconsin; Tulsa, Oklahoma; and Scottsdale, Arizona.

Information about the Company's foreign operations and export sales is included in Note 10 "Industry Segment and Geographic Areas" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K.

Financial Information about Industry Segments

The Company operates in one industry segment as an innovator, manufacturer and marketer of products incorporating flow measurement and control technologies as described in Note 10 "Industry Segment and Geographic Areas" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Shareholders, potential investors and other readers are urged to consider the significant business risks described below in addition to the other information set forth or incorporated by reference in this 2013 Annual Report on Form 10-K, including the "Special Note Regarding Forward Looking Statements" at the front of this 2013 Annual Report on Form 10-K. If any of the events contemplated by the following risks actually occur, our financial condition or results of operations could be materially adversely affected. The following list of risk factors may not be exhaustive. We operate in a continually changing business, economic and geopolitical environment, and new risk factors may emerge from time to time. We can neither predict these new risk factors with certainty nor assess the precise impact, if any, on our business, or the extent to which any factor, or combination of factors, may adversely impact our results of operations. While there is much uncertainty, we do analyze the risks we face, perform a probability assessment of their impacts and attempt to soften their potential impact when and if possible.

Competitive pressures in the marketplace could decrease our revenues and profits.

Competitive pressures in the marketplace for our products could adversely affect our competitive position, leading to a possible loss of market share or a decrease in prices, either of which could result in decreased revenues and profits. We operate in an environment where competition varies from moderate to intense and a number of our competitors have greater financial resources. Our competitors also include alliance partners that sell products that do or may compete with our products, particularly those that provide radio solutions. The principal elements of competition for our most significant product applications, residential and commercial water meters for the municipal water utility market (with various radio technology systems), are price, product technology, quality and service. The competitive environment is also affected by the movement toward radio technologies and away from manually read meters, the demand for replacement units and, to some extent, such things as global economic conditions, the timing and size of

governmental programs such as stimulus fund programs, the ability of municipal water utility customers to authorize and finance purchases of our products, our ability to obtain financing, housing starts in the United States, and overall economic activity. For our industrial flow and specialty products, the competitive environment is affected by the general economic health of various industrial sectors particularly in the United States and Europe.

The inability to develop technologically advanced products could harm our future success.

We believe that our future success depends, in part, on our ability to develop technologically advanced products that meet or exceed appropriate industry standards. Although we believe that we currently have a competitive advantage in this area, maintaining such advantage will require continued investment in research and development, sales, marketing and manufacturing capabilities. There can be no assurance that we will have sufficient resources to make such investments or that we will be able to make the technological advances necessary to maintain such competitive advantage. If we are unable to maintain our competitive advantage, our future financial performance may be adversely affected. We are not currently aware

of any emerging standards or new products that could render our existing products obsolete in the near term. The water utility industry is beginning to see the adoption of electronic (static) water meters. Electronic water metering has lower barriers to entry that could affect the competitive landscape in North America. We believe we have a competitive product if the adoption rate for electronic meters were to accelerate.

The inability to obtain adequate supplies of raw materials and component parts at favorable prices could decrease our profit margins and negatively impact timely delivery to customers.

We are affected by the availability and prices for raw materials, including purchased castings made of metal or alloys (such as brass, which uses copper as its main component, aluminum, stainless steel and cast iron), plastic resins, glass, microprocessors and other electronic subassemblies, and components that are used in the manufacturing process. The inability to obtain adequate supplies of raw materials and component parts for our products at favorable prices could have a material adverse effect on our business, financial condition or results of operations by decreasing profit margins and by negatively impacting timely deliveries to customers. In the past, we have been able to offset increases in raw materials and component parts by increased sales prices, active materials management, product engineering programs and the diversity of materials used in the production processes. However, we cannot be certain that we will be able to accomplish this in the future. Since we do not control the actual production of these raw materials and component parts, there may be delays caused by an interruption in the production of these materials for reasons that are beyond our control. World commodity markets and inflation may also affect raw material and component part prices.

New regulations related to conflict minerals may force us to incur additional expenses.

The Securities and Exchange Commission has adopted disclosure requirements related to certain minerals sourced from the Democratic Republic of Congo and surrounding countries, or “conflict minerals,” that are necessary to the functionality of a product manufactured, or contracted to be manufactured, by a Securities and Exchange Commission reporting company. The minerals that the final rules cover are commonly referred to as “3TG” and include tin, tantalum, tungsten and gold. Implementation of the new disclosure requirements could affect the sourcing and availability of some of the materials that we use in the manufacture of our products. Our supply chain is complex, and if we are not able to determine the origins for all conflict minerals used in our products or that our products are “conflict free,” then we may face reputational challenges with customers or investors. We could also incur significant costs related to the compliance process, including potential difficulty or added costs in satisfying the disclosure and audit requirements.

Economic conditions could cause a material adverse impact on our sales and operating results.

As a supplier of products, the majority of which are to water utilities, we may be adversely affected by global economic conditions, delays in governmental programs created to stimulate the economy, and the impact of government budget cuts or partial shutdowns of governmental operations that affect our customers, including independent distributors, large city utilities, private water companies and numerous smaller municipal water utilities. These customers may delay capital projects, including non-critical maintenance and upgrades, or may not have the ability to authorize and finance purchases during economic downturns or instability in world markets. We also sell products for other applications to reduce our dependency on the municipal water market. A significant downturn in this market could cause a material adverse impact on sales and operating results. Therefore, a downturn in general economic conditions, as well as in the municipal water market, and delays in the timing or amounts of possible economic stimulus fund programs, government budget cuts or partial shutdowns of governmental operations, or the availability of funds to municipalities could result in a reduction in demand for our products and services and could harm the business.

Unusual weather and other natural phenomena could adversely affect our business.

Our sales may be adversely affected by unusual weather and natural phenomena that could have an impact on the timing of orders in given periods, depending on the particular mix of customers being served by us at the time.

Failure to manufacture quality products could have a material adverse effect on our business.

If we fail to maintain and enforce quality control and testing procedures, our products will not meet required performance standards. Product quality and performance are a priority for us since our products are used in various applications where precise control of fluids is essential. Although we believe we have a very good reputation for product quality, any future production and/or sale of substandard products would seriously harm our reputation, resulting in both a loss of current customers to competitors and damage to our ability to attract new customers. In addition, if any of our products prove to be defective, we may be required to participate in a recall involving such products. A successful claim brought against

us with respect to a defective product in excess of available insurance coverage, if any, or a requirement to participate in a major product recall, could have a material adverse effect on our business, results of operations or financial condition.

Litigation against us could be costly, time consuming to defend and could adversely affect our profitability.

From time to time, we are subject to legal proceedings and claims that arise in the ordinary course of business. For example, we may be subject to workers' compensation claims, employment/labor disputes, customer and supplier disputes, product liability claims, intellectual property disputes and contractual disputes related to warranties arising out of the conduct of our business. Litigation may result in substantial costs and may divert management's attention and resources, which could adversely affect our profitability or financial condition.

If our technology products do not operate as intended, our business could be materially and adversely affected.

We sell and install software products that may contain unexpected design defects or may encounter unexpected complications during installation or when used with other technologies utilized by the customer. A failure of our technology products to operate as intended and in a seamless fashion with other products could materially and adversely affect our results of operations, financial position and cash flows.

If we are not able to protect our proprietary rights to our software and related products, our ability to market our software products could be hindered and our results of operations, financial position and cash flows could be materially and adversely affected.

We rely on our agreements with customers, confidentiality agreements with employees, and our trademarks, trade secrets, copyrights and patents to protect our proprietary rights. These legal protections and precautions may not prevent misappropriation of our proprietary information. In addition, substantial litigation regarding intellectual property rights exists in the software industry, and software products may increasingly be subject to third-party infringement claims. Such litigation and misappropriation of our proprietary information could hinder our ability to market and sell products and services and our results of operations, financial position and cash flows could be materially and adversely affected.

Changes in environmental or regulatory requirements could entail additional expenses that could decrease our profitability.

We cannot predict the nature, scope or effect of future environmental or regulatory requirements to which our operations might be subject or the manner in which existing or future laws will be administered or interpreted. Compliance with such laws or regulations may entail additional expenses that could decrease profitability. We are subject to a variety of environmental laws, such as lead content in certain meters incorporating brass housings, and regulatory laws affecting the use and/or licensing of radio frequencies necessary for radio products, as well as regulations related to customs and trade practices. Currently, the cost of complying with existing laws is included as part of our on-going expenses and does not have a material effect on our business or financial position, but a change in the future could adversely affect our profitability.

Risks related to foreign markets could decrease our profitability.

Since we sell products worldwide as well as manufacture products in several countries, we are subject to risks associated with doing business internationally. These risks include such things as changes in foreign currency exchange rates, changes in a specific country's or region's political or economic conditions, potentially negative

consequences from changes in tax laws or regulatory requirements, differing labor regulations, and the difficulty of managing widespread operations.

An inability to attract and retain skilled employees could negatively impact our growth and decrease our profitability.

Our success depends on our continued ability to identify, attract, develop and retain skilled personnel throughout our organization. Current and future compensation arrangements, including benefits, may not be sufficient to attract new employees or retain existing employees, which may hinder our growth.

Rising healthcare and retirement benefit costs could increase cost pressures and decrease our profitability.

We estimate liabilities and expenses for retirement plans and other postretirement benefits that require the use of assumptions relating to the rates used to discount the future estimated liability, rate of return on any assets and various assumptions related to the age and cost of the workforce. Actual results may differ from the estimates and have a material

adverse effect on future results of operations or on the financial statements as a whole. Rising healthcare and retirement benefit costs in the United States may also add to cost pressures and decrease our profitability.

A failure to maintain good corporate governance practices could damage our reputation and adversely affect our future success.

We have a history of good corporate governance, including procedures and processes that are required by the Sarbanes-Oxley Act of 2002 and related rules and regulations, such as board committee charters, and a code of business conduct that defines how employees interact with our various stakeholders and addresses issues such as confidentiality, conflict of interest and fair dealing, and applicable exchange listing standards. Failure to maintain these corporate governance practices could harm our reputation and have a material adverse effect on our business and results of operations.

Failure to successfully integrate acquired businesses or products could adversely affect our operations.

As part of our business strategy, we continue to evaluate and may pursue selected business or product acquisition opportunities that we believe may provide us with certain operating and financial benefits. If we complete any such acquisitions, they may require integration into our existing business with respect to administrative, financial, sales, marketing, manufacturing and other functions to realize these anticipated benefits. If we are unable to successfully integrate a business or product acquisition, we may not realize the benefits identified in our due diligence process, and our financial results may be negatively impacted. Additionally, significant unexpected liabilities may arise during or after completion of an acquisition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal facilities utilized by the Company at December 31, 2013 are listed below. The Company owns all such facilities in fee simple except as noted. The Company believes that its facilities are generally well maintained and have sufficient capacity for its current needs.

Location	Principal use	Approximate area (square feet)	
Milwaukee, Wisconsin, USA	Manufacturing and offices	323,500	
Racine, Wisconsin, USA	Manufacturing and offices	134,000	(1)
Scottsdale, Arizona, USA	Manufacturing and offices	23,000	(2)
Tulsa, Oklahoma, USA	Manufacturing and offices	59,500	
Brno, Czech Republic	Manufacturing and offices	27,800	
Neuffen, Germany	Manufacturing and offices	21,500	
Nogales, Mexico	Manufacturing and offices	140,000	
Nogales, Mexico	Manufacturing and offices	41,300	
Bern, Switzerland	Manufacturing and offices	1,100	(3)

(1) Leased facility. Lease term expires December 31, 2025.

(2) Leased facility. Lease term expires June 30, 2014, at which time it is expected to be renewed.

(3) Building is owned, but land is leased from the government. Lease term expires October 18, 2021.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is named in legal proceedings from time to time. There are currently no material legal proceedings pending with respect to the Company. The more significant legal proceedings are discussed below.

Like other companies in recent years, the Company is named as a defendant in numerous pending multi-claimant/multi-defendant lawsuits alleging personal injury as a result of exposure to asbestos, manufactured by third parties, and integrated into or sold with a very limited number of the Company's products. The Company is vigorously defending itself against these claims. Although it is not possible to predict the ultimate outcome of these matters, the Company does not believe

the ultimate resolution of these issues will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based in part on the fact that no claimant has proven or substantially demonstrated asbestos exposure caused by products manufactured or sold by the Company and that a number of cases have been voluntarily dismissed.

The Company is subject to contingencies related to environmental laws and regulations. Information about the Company's compliance with environmental regulations is included in Part I, Item 1 of this 2013 Annual Report on Form 10-K under the heading "Environmental Protection."

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Information required by this Item is set forth in Note 11 "Unaudited: Quarterly Results of Operations, Common Stock Price and Dividends" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K.

The following information in Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such a filing.

The following graph compares on a cumulative basis the yearly percentage change since January 1, 2009 in (a) the total shareholder return on the Common Stock with (b) the total return on the Russell 2000 Index, and (c) the total return of the peer group made up of 15 companies in similar industries and with similar market capitalization.

The graph assumes \$100 invested on December 31, 2008. It further assumes the reinvestment of dividends. The returns of each component company in the peer groups have been weighted based on such company's relative market capitalization.

December 31	2008	2009	2010	2011	2012	2013	
Badger Meter, Inc.	Return %	39.11	% 12.55	%(32.27	)% 63.98	% 16.64	%
	Cumulative \$	\$ 100.00	\$ 139.11	\$ 156.57	\$ 106.04	\$ 173.89	\$ 202.82
Russell 2000 Index	Return %	27.09	% 26.81	%(4.18	)% 16.39	% 38.83	%
	Cumulative \$	\$ 100.00	\$ 127.09	\$ 161.17	\$ 154.44	\$ 179.75	\$ 249.53
Peer Group	Return %	12.10	% 25.66	%(1.16	)% 37.20	% 43.26	%
	Cumulative \$	\$ 100.00	\$ 112.10	\$ 140.87	\$ 139.23	\$ 191.03	\$ 273.67

The Peer Group consists of A.O. Smith Corp. (AOS), Badger Meter, Inc. (BMI), CIRCOR International, Inc. (CIR), Colfax Corporation (CFX), ESCO Technologies Inc. (ESE), Flow International Corporation (FLOW), Franklin Electric Co, Inc. (FELE), Fuel Systems Solutions, Inc. (FSYS), Gorman-Rupp Company (GRC), Lindsay Corporation (LNN), Measurement

Specialties, Inc. (MEAS), MFRI, Inc. (MFRI), Mueller Water Products (MWA), Robbins & Myers, Inc. (RBN) (ceased trading on February 20, 2013), and Watts Water Technologies, Inc. (WTS).

ITEM 6. SELECTED FINANCIAL DATA

BADGER METER, INC.

Ten Year Summary of Selected Consolidated Financial Data
Years ended December 31,

(In thousands except per share data)	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating results										
Net sales	\$334,122	319,660	262,915	276,634	250,337	279,552	234,816	229,754	203,637	188,663
Research and development	\$10,504	9,857	8,086	7,164	6,910	7,136	5,714	5,458	5,343	4,572
Earnings from continuing operations before income taxes	\$38,009	43,471	27,349	44,438	42,333	39,555	29,325	27,489	25,664	20,325
Earnings from continuing operations	\$24,617	28,032	19,161	28,662	26,780	25,084	18,386	16,568	16,164	12,056
Earnings (loss) from discontinued operations (1)	\$ n/a	n/a	n/a	n/a	7,390	n/a	(1,929)	(9,020)	(2,911)	(2,423)
Net earnings	\$24,617	28,032	19,161	28,662	34,170	25,084	16,457	7,548	13,253	9,633
Earnings from continuing operations to sales	7.4%	8.8%	7.3%	10.4%	10.7%	9.0%	7.8%	7.2%	7.4%	6.4%
Per Common share										
Basic earnings from continuing operations	\$1.71	1.96	1.28	1.92	1.81	1.72	1.29	1.19	1.20	0.91
Basic earnings (loss) from discontinued operations	\$ n/a	n/a	n/a	n/a	0.50	n/a	(0.13)	(0.65)	(0.22)	(0.18)
Total basic earnings	\$1.71	1.96	1.28	1.92	2.31	1.72	1.16	0.54	0.98	0.73
Diluted earnings from continuing operations	\$1.70	1.95	1.27	1.91	1.79	1.69	1.26	1.15	1.15	0.89
Diluted earnings (loss) from discontinued operations	\$ n/a	n/a	n/a	n/a	0.49	n/a	(0.13)	(0.63)	(0.20)	(0.18)
Total diluted earnings	\$1.70	1.95	1.27	1.91	2.28	1.69	1.13	0.52	0.95	0.71
Cash dividends declared:										
Common Stock	\$0.70	0.66	0.60	0.52	0.46	0.40	0.34	0.31	0.29	0.28
Price range - high	\$56.36	48.60	45.47	45.49	44.90	62.74	46.43	32.20	25.63	16.00
Price range - low	\$41.88	29.30	26.86	32.58	22.50	17.58	23.00	19.51	13.23	8.53
Closing price	\$54.50	47.41	29.43	44.22	39.82	29.02	44.95	27.70	19.62	14.98
Book value *	\$13.64	11.96	11.85	11.19	9.65	7.50	6.33	5.07	5.36	4.77
Shares outstanding at year-end										
Common Stock	14,412	14,314	15,123	15,048	14,973	14,808	14,519	14,154	13,696	13,444
Financial position										
Working capital *	\$29,122	27,294	78,782	64,658	60,419	35,740	38,725	33,648	32,923	25,461
Current ratio *	1.3 to 1	1.3 to 1	4.5 to 1	3.0 to 1	3.3 to 1	1.7 to 1	1.9 to 1	1.7 to 1	1.8 to 1	1.6 to 1
Net cash provided by operations	\$34,818	34,801	31,317	18,396	36,588	26,143	27,934	16,750	18,361	6,297
Capital expenditures	\$14,311	8,202	5,336	9,238	7,750	13,237	15,971	11,060	9,088	5,582
Total assets	\$316,058	290,453	218,910	215,864	191,016	195,358	150,301	139,383	145,867	142,961
Short-term and current portion of long-term debt	\$70,045	66,730	1,790	12,878	8,003	19,670	13,582	17,037	13,328	22,887
Long-term debt	\$ n/a	n/a	n/a	n/a	n/a	5,504	3,129	5,928	15,360	14,819
Shareholders' equity (2)	\$196,563	171,247	179,281	168,383	144,461	111,023	91,969	71,819	73,416	64,066
	26.3%	28.0%	1.0%	7.1%	5.2%	18.5%	15.4%	26.8%	30.1%	37.0%

Debt as a percent of total debt
and equity *

Return on shareholders' equity *	12.5%	16.4%	10.7%	17.0%	18.5%	22.6%	20.0%	23.1%	22.0%	18.8%
Price/earnings ratio *	32.1	24.3	23.2	23.2	22.2	17.2	35.7	24.1	17.1	16.8

(1) The Company's French operations have been presented as discontinued operations through 2007, the years of ownership. In 2009, discontinued operations represented the recognition of previously unrecognized tax benefits for certain deductions that were taken on prior tax returns related to the shutdown of the Company's French operations.

(2) The Company adopted the provisions of the Financial Accounting Standards Board Accounting Standards Codification 715, "Compensation - Retirement Benefits" on December 31, 2006, with respect to recognizing the funded status of pension and postretirement benefit plans, and at December 31, 2008, with respect to changing the measurement date.

*Description of calculations as of the applicable year end:

Book value per share equals total shareholders' equity at year-end divided by the number of common shares outstanding.

Working capital equals total current assets less total current liabilities.

Current ratio equals total current assets divided by total current liabilities.

Debt as a percent of total debt and equity equals total debt (the sum of short-term debt, current portion of long-term debt and long-term debt) divided by the sum of total debt and total shareholders' equity at year-end. The debt of the discontinued French operations is included in this calculation through 2007, the years of ownership, although there was no debt at the end of 2007 related to the French operations.

Return on shareholders' equity equals earnings from continuing operations divided by total shareholders' equity at year-end.

Price/earnings ratio equals the year-end closing stock price for common stock divided by diluted earnings per share from continuing operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS DESCRIPTION AND OVERVIEW

An innovator in flow measurement and control products, the Company serves water utilities, municipalities, and commercial and industrial customers worldwide. Measuring water, oil, chemicals and other fluids, the Company's products are known for accuracy, long-lasting durability and for providing valuable and timely measurement data. The Company's product lines fall into three categories: sales of water meters and related technologies to municipal water utilities (municipal water), sales of meters to various industries for water and other fluids (industrial flow), and sales of gas meter radios and concrete vibrators to unique markets (specialty products). The Company estimates that over 75% of its products are used in water applications when all categories are grouped together.

Municipal water, the largest category by sales volume, includes mechanical and electronic (static) water meters and related technologies and services used by water utilities as the basis for generating water and wastewater revenues. The key market for the Company's water meter products is North America, primarily the United States, because most meters are designed and manufactured to conform to standards promulgated by the American Water Works Association. Sales of water meters and related technologies and services are commonly referred to as residential or commercial water meter sales, the latter referring to larger sizes of meters.

Industrial flow includes products sold worldwide to measure and control materials flowing through a pipe or pipeline including water, air, steam, oil, and other liquids and gases. These meters and valves are used in a variety of applications, such as water/wastewater; heating, ventilating and air conditioning (HVAC); oil and gas; chemical and petrochemical; food and beverage; and pharmaceutical production.

Specialty products include sales of radio technology to natural gas utilities for installation on their gas meters, and concrete vibrators.

Additional information about the Company's business is described in Part 1, Item 1 "Business" under the heading "Market Overview, Products, Systems and Solutions" in this 2013 Annual Report on Form 10-K.

Business Trends

Increasingly, the electric utility industry relies on AMI technology for two-way communication to monitor and control electrical devices at the customer's site. Although the Company does not sell products for electric market applications, the trend toward AMI affects the markets in which the Company does participate, particularly for those customers in the water utility market that are interested in more frequent and diverse data collection. Specifically, AMI and AMA technologies enable water utilities to capture readings from each meter at more frequent and variable intervals. Similar to the electric utility industry a few years ago, the water utility industry is beginning to see the adoption of electronic (static) water meters. Electronic water metering has lower barriers to entry which could affect the competitive landscape in North America.

The Company sells its technology solutions to meet customer requirements. Since the technology products have comparable margins, any change in the mix between AMR, AMI or AMA is not expected to have a significant impact on the Company's net sales related to meter reading technology.

There are approximately 53,000 water utilities in the United States and the Company estimates that less than 35% of them have converted to a radio solutions technology. Although there is growing interest in AMI and AMA communication by water utilities, the vast majority of utilities installing such technology continue to select AMR technologies for their applications. The Company's ORION technology has experienced rapid acceptance in the United States as an increasing number of water utilities have selected ORION as their AMR solution. The Company anticipates that even with growing interest in AMI and AMA, AMR will continue to be the primary product of choice for a number of years. For many water utilities, AMR technology is simply the most cost-effective solution available today. However, with the introduction of its newer product offerings, including the recently introduced BEACON AMA system, the Company believes it is well-positioned to meet customers' future needs.

Acquisitions

On April 1, 2013, the Company purchased Aquacue, Inc. ("Aquacue") of Los Gatos, California. The Aquacue acquisition provides the Company with intellectual property that complements and expands the Company's advanced metering analytics offerings by adding an integrated software platform that allows utility managers to monitor and control their water systems, while providing water management data to consumers. Sales of Aquacue products were immaterial for 2013. The purchase price was \$13.8 million in cash, including a small working capital adjustment. The Company merged Aquacue into Badger Meter, Inc. on December 31, 2013. This acquisition is further described in Note 3 "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K.

On January 31, 2012, the Company completed its acquisition of 100% of the outstanding common stock of Racine Federated, Inc. ("Racine Federated") of Racine, Wisconsin and its subsidiary Premier Control Technologies, Ltd. ("PCT") located in Thetford, England for approximately \$57.3 million in cash, plus a working capital adjustment of \$0.3 million. During the fourth quarter of 2012, the Company sold PCT for a nominal amount after the majority of its functions were absorbed by the Company's European subsidiary. The Company also merged Racine Federated into Badger Meter, Inc. on December 31, 2012. Racine Federated manufactures and markets flow meters for the water industry as well as various industrial metering and specialty products. These products complement and expand the Company's existing lines for the global flow measurement business. This acquisition is further described in Note 3 "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K.

On January 26, 2011, the Company purchased Remag, AG ("Remag") of Bern, Switzerland for \$4.9 million. Remag distributes a line of precision flow measurement products, some of which they manufacture, for the global industrial market. Their small turbine meters complement and expand the Company's existing line of industrial flow products. This acquisition is further described in Note 3 "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K.

Revenue and Product Mix

Prior to the Company's introduction of its own proprietary radio products, for example ORION and GALAXY, Itron water utility-related products were a dominant radio products contributor to the Company's results. Itron products are sold under an agreement between the Company and Itron, Inc. that has been renewed multiple times and is in effect until early 2016. The Company's radio products directly compete with Itron water radio products. In recent years, many of the Company's customers have selected the Company's proprietary products over Itron products. While the Company's proprietary product sales are generally greater than those of the Itron licensed products, the Company expects that Itron products will remain a significant component of sales to water utilities. Continuing substantial sales in both product lines underscores the continued acceptance of radio technology by water utilities and affirms the Company's strategy of selling Itron products in addition to its own proprietary products.

As the industry continues to evolve, the Company has been vigilant in anticipating and exceeding customer expectations. In 2011, the Company introduced AMA as a hardware and software solution for water and gas utilities, and then in early 2014 launched its new BEACON AMA system as a managed solution which it believes will help maintain the Company's position as a market leader. The Company continues to seek opportunities for additional revenue enhancement. For instance, the Company is periodically asked to oversee and perform field installation of its products for certain customers. The Company assumes the role of general contractor, hiring installation subcontractors and supervising their work. The Company also supports its product and technology sales with the sale of extended service programs that provide additional services beyond the standard warranty. In recent years, the Company has sold ORION radio technology to natural gas utilities for installation on their gas meters. With the exception of a large sale of gas radios to one particular customer several years ago, the revenues from such products and services are not yet significant and the Company is uncertain of the potential growth achievable for such products and services in future periods.

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RESULTS OF OPERATIONS

Net Sales

Net sales in 2013 increased \$14.4 million, or 4.5%, to \$334.1 million from \$319.7 million in 2012. The overall increase was due primarily to higher sales of municipal water products as a result of higher volumes of units sold, offset somewhat by lower sales of industrial and specialty products.

Municipal water sales increased \$17.9 million, or 8.4%, to \$231.1 million in 2013 from \$213.2 million in 2012. These sales represented 69.2% of total net sales in 2013 compared to 66.7% in 2012. The sales increase was due to higher sales of residential meters sold both with and without technology as well as higher commercial meter sales. Sales of residential meters and related technology increased 6.9% for the year due to higher volumes of product sold, slightly offset by lower average prices. Commercial water meter sales increased 15.2% in 2013 compared to 2012 due primarily to higher volumes of product sold. The Company believes the net overall increase for the year was a continuation of a return to normal buying patterns that began in 2012, although sales were negatively affected in early 2013 by a colder and snowier winter and the effects of Hurricane Sandy. In addition, part of the increase was due to additional sales to former customers of a competitor that ceased North American production of mechanical meters on June 30, 2013. The Company estimates sales to these customers were approximately \$4.1 million in 2013.

Industrial flow products represented 27.3% of total net sales in 2013 compared to 29.0% in 2012. These sales decreased \$1.6 million, or 1.7%, to \$91.2 million from \$92.8 million in 2012. Sales of products within this category were affected by general economic conditions which resulted in weaker orders.

Specialty products represented 3.5% of total net sales in 2013 compared to 4.3% in 2012. These sales decreased \$1.9 million in 2013, or 13.9%, to \$11.8 million from \$13.7 million in 2012. The decline was caused by lower sales of radios into the natural gas market and lower sales of concrete vibrators.

International sales for municipal water meters and related technologies are generally made to customers in Canada and Mexico, which use similar mechanical technology and standards as customers in the U.S. International sales for industrial flow and specialty products are generally made throughout the world. In Europe, sales are made primarily in Euros. Other international sales are made in U.S. dollars or local currencies. International sales decreased 9.3% to \$44.1 million in 2013 from \$48.6 million in 2012 primarily due to the timing of large projects and general economic conditions.

Net sales in 2012 increased \$56.8 million, or 21.6%, to \$319.7 million from \$262.9 million in 2011. The overall increase was due to the inclusion of Racine Federated's net sales for eleven months of the year and higher municipal water sales, offset somewhat by lower sales of radios to natural gas utilities. Racine Federated's sales for the eleven months ended December 31, 2012 were \$41.3 million.

Municipal water sales increased \$22.9 million, or 12.0%, to \$213.2 million in 2012 from \$190.3 million in 2011. These sales represented 66.7% of total net sales in 2012 compared to 72.4% in 2011. The sales increase was due to higher sales of residential meters sold with technology as well as higher commercial meter sales. Sales of meters with technology increased 11.6% for the year due to higher volumes of product sold. Sales of manually read residential meters were essentially flat between years. Commercial water meter sales increased 19.5% in 2012 compared to 2011 due to higher volumes of product sold. The Company believes the net overall increase for the year was due to normal buying patterns beginning to resume after a period where there were negative factors affecting market conditions. These factors included lingering concerns about municipal spending, which resulted in delayed buying decisions, and slower housing starts. In addition, the Company's introduction in 2011 of the next generation of the ORION product

lengthened the sales cycle for water utilities as they evaluated this new technology. Weather may have also played a role as poor weather in the Midwest and Northeast had a negative impact on sales in early 2011 due to its effects on budget demands and installation rates, which did not recur in early 2012.

Industrial flow products represented 29.0% of total net sales in 2012 compared to 21.5% in 2011. These sales increased \$36.2 million, or 64.0%, to \$92.8 million from \$56.6 million in 2011. As previously noted, Racine Federated was acquired on January 31, 2012 and Racine Federated's sales were included from that point forward. Within this product grouping, Racine Federated's sales were \$32.6 million. The remainder of the increase was due to higher sales in most of the remaining industrial flow product lines.

Specialty products represented 4.3% of total net sales in 2012 compared to 6.1% in 2011. These sales decreased \$2.3

million in 2012, or 14.4%, to \$13.7 million from \$16.0 million in 2011. Included in this product grouping was \$8.7 million of sales from Racine Federated. Without these sales, specialty products would have shown a larger sales decrease due to lower sales of radios into the natural gas market. The 2011 sales included higher sales of radios to one particular natural gas customer that did not recur in 2012.

International sales for municipal water meters and related technologies are generally made to customers in Canada and Mexico, which use similar mechanical technology and standards as customers in the U.S. International sales for industrial flow and specialty products are generally made throughout the world. In Europe, sales are made primarily in Euros. Other international sales are made in U.S. dollars or local currencies. International sales increased 53.8% to \$48.6 million in 2012 from \$31.6 million in 2011 primarily due to the addition of Racine Federated's product lines.

Gross Margins

Gross margins as a percentage of sales were 35.0%, 38.2% and 34.2% for 2013, 2012 and 2011, respectively. The percentage decline in 2013 from the 2012 rate was due to a higher mix of municipal water sales compared to industrial flow sales which carry higher margins, lower prices charged to the former customers of a competitor that ceased North American production of water meters, higher obsolete inventory charges, higher costs of electronics due to foreign exchange effects, and higher costs of metal alloy as the shift to lead-free brass was completed.

The gross margin percentage increase in 2012 over the 2011 rate was due in part to the addition of Racine Federated's products, whose margins are generally a higher percentage than the Company's overall weighted margin percentage. Margins also increased due to lower costs for castings which fluctuate with the metals market, and higher sales volumes in general which increased overall factory utilization. Offsetting these factors was the impact of lower sales of radios to natural gas utilities.

Operating Expenses

Selling, engineering and administration expenses in 2013 were \$0.1 million, or 0.1% higher than these expenses in 2012. The 2012 amounts included a \$1.0 million charge related to the write down of the Company's investment in an emerging technology company. The 2013 amounts include intangible amortization charges associated with the Aquacue acquisition, charges associated with a legal issue and normal inflationary increases. Offsetting these increases were lower employee incentives and continuing cost control measures.

Selling, engineering and administration expenses in 2012 increased \$15.5 million, or 24.9%, over these expenses in 2011. The increase was primarily attributable to the acquisition of Racine Federated and amortization of intangibles acquired, which were not included in the results for 2011. The remainder of the increase was due to higher employee incentives and normal inflationary increases, offset by continuing cost control measures. The 2012 amounts include a \$1.0 million charge related to the write down of the Company's investment in an emerging technology company and a \$1.1 million non-cash pension charge as a result of payouts from the pension plan occurring faster than the assumed rate.

Operating Earnings

Operating earnings in 2013 decreased \$5.4 million, or 12.1%, to \$39.1 million compared to \$44.5 million in 2012. The decrease was the result of the lower gross margins resulting from the mix of sales, the lower prices charged to customers of a former competitor, higher obsolescence costs and higher alloy costs, all offset somewhat by the higher net sales.

Operating earnings in 2012 increased \$17.0 million, or 61.8%, to \$44.5 million compared to \$27.5 million in 2011, as a net result of the higher sales of municipal water and industrial flow products, offset somewhat by higher selling, engineering and administration expenses. In addition, lower costs of certain raw materials also contributed to the increased operating earnings.

Interest Expense, Net

Interest expense, net was \$1.1 million in 2013 compared to \$1.0 million in 2012. The slight increase was due to higher average borrowings due in part to the Aquacue acquisition in April 2013.

Interest expense, net was \$1.0 million in 2012 compared to \$0.2 million in 2011. The increase was due primarily to higher borrowings in 2012 associated with the acquisition of Racine Federated and the Company's stock repurchase program.

Income Taxes

Income taxes as a percentage of earnings before income taxes were 35.2%, 35.5% and 29.9% for 2013, 2012 and 2011, respectively. The 2011 results include recognition of previously unrecognized tax benefits for certain deductions that were taken on prior tax returns. These benefits total approximately \$1.3 million and were recognized in earnings in 2011 due to the realization that such benefits became more likely than not upon the conclusion of an IRS audit of the Company's 2009 Federal income tax return. Without these benefits, the provision for income taxes as a percentage of earnings before income taxes for 2011 would have been 34.8%. The variances in all three years presented are due to the changes in state taxes depending on each year's sales and the relationship of foreign and domestic income which are taxed at different rates.

Earnings and Diluted Earnings Per Share

Because of the decreased operating earnings, net earnings were \$24.6 million in 2013 compared to \$28.0 million in 2012. On a diluted basis, earnings per share were \$1.70 in 2013 compared to \$1.95 in 2012.

As a result of the increased operating earnings, offset somewhat by a higher effective tax rate, net earnings were \$28.0 million in 2012 compared to \$19.2 million in 2011. On a diluted basis, earnings per share were \$1.95 in 2012 compared to \$1.27 in 2011.

LIQUIDITY AND CAPITAL RESOURCES

The main sources of liquidity for the Company are cash from operations and borrowing capacity. In addition, depending on market conditions, the Company may access the capital markets to strengthen its capital position and to provide additional liquidity for general corporate purposes. Cash provided by operations in 2013 was \$34.8 million compared to \$34.8 million in 2012. The 2013 amount had lower earnings, an increase in receivables and a decrease in certain liabilities from 2012, while the 2012 amounts contained an increase in inventories and a pension payment that did not recur in 2013.

Receivables at December 31, 2013 were \$50.1 million compared to \$45.6 million at the end of 2012. The increase was due in part to higher sales in the fourth quarter of 2013 compared to the fourth quarter of 2012. The Company believes its net receivables balance is fully collectible.

Inventories at December 31, 2013 were \$60.9 million and substantially unchanged from \$61.0 million at December 31, 2012.

Property, plant and equipment increased as a net result of capital expenditures offset by depreciation expense. Capital expenditures totaled \$14.3 million in 2013 compared to \$8.2 million in 2012. These amounts vary due to the timing of capital expenditures. The Company believes it has adequate capacity to increase production levels with minimal additional capital expenditures.

Intangible assets decreased to \$57.3 million at December 31, 2013 from \$58.4 million at December 31, 2012. This is the net impact of a \$3.9 million increase due to the acquisition of Aquacue, more than offset by normal amortization expense. Also, as a result of the Aquacue acquisition, goodwill increased to \$44.7 million at December 31, 2013 compared to \$35.9 million at December 31, 2012.

Due to higher than expected returns for the Company's pension assets, there was a prepaid pension amount of \$4.3 million at December 31, 2013. At December 31, 2012, a pension liability of \$4.2 million was included in other accrued employee benefits, which saw a reduction to \$4.4 million at December 31, 2013 from \$8.9 million at

December 31, 2012.

Short-term debt increased from December 31, 2012 to December 31, 2013 as the Company borrowed funds for its acquisition of Aquacue. At the end of 2013, debt represented 26.3% of the Company's total capitalization. None of the debt is secured by the Company's assets.

Payables increased at December 31, 2013 to \$18.6 million compared to \$15.6 million at December 31, 2012. The 2012 amount included \$4.6 million owed to the sellers of Racine Federated that was paid July 31, 2013. The 2013 amount includes \$3.0 million owed to the sellers of Aquacue that will be paid in 2014. The remainder of the increase was due to the timing of purchases.

Accrued compensation and employee benefits decreased \$2.5 million to \$7.3 million at December 31, 2013 from \$9.8 million at December 31, 2012 primarily due to lower accrued employee incentives.

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The overall increase in total shareholders' equity from \$171.2 million at December 31, 2012 to \$196.6 million at December 31, 2013 was principally the result of net earnings, stock options exercised and a reduction in Accumulated Other Comprehensive Loss as a result of favorable actuarial gains, net of their tax effect, offset by dividends paid.

The Company's financial condition remains strong. In May 2012, the Company signed a new credit agreement that increased its principal line of credit from \$90.0 million to \$125.0 million with its primary lender for a three year period. The line was reduced by \$16.7 million in May 2013 and will be reduced by a similar amount in May 2014. While the facility is unsecured, there are a number of financial covenants with which the Company is in compliance. The Company believes that its operating cash flows, available borrowing capacity, and its ability to raise capital provide adequate resources to fund ongoing operating requirements, future capital expenditures and the development of new products. The Company continues to take advantage of its local commercial paper market and carefully monitors the current borrowing market. The Company had \$47.8 million of unused credit lines available at December 31, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements at December 31, 2013.

CONTRACTUAL OBLIGATIONS

In 2010, the Company restructured the outstanding debt of its Employee Savings and Stock Option Plan (the "ESSOP") by loaning the ESSOP \$0.5 million to repay a loan to a third party and loaning the ESSOP an additional \$1.0 million to purchase additional shares of the Company's Common Stock for future 401(k) savings plan matches under a program that will expire on December 31, 2020. Under this program, the Company agreed to pay the principal and interest on the new loan amount of \$1.5 million. The receivable from the ESSOP and the related obligation were therefore netted to zero on the Company's Consolidated Balance Sheets at December 31, 2013 and 2012. The terms of the loan call for equal payments of principal with the final payment due on December 31, 2020. At December 31, 2013, \$1.1 million of the loan balance remains.

The following table includes the Company's significant contractual obligations as of December 31, 2013. There are no material undisclosed guarantees.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	Beyond
	(In thousands)				
Short-term debt	\$70,045	\$70,045	\$—	\$—	\$—
Operating leases	12,891	1,681	2,546	1,994	6,670
Total contractual obligations	\$82,936	\$71,726	\$2,546	\$1,994	\$6,670

Other than items included in the preceding table, as of December 31, 2013, the Company had no additional material purchase obligations other than those created in the ordinary course of business related to inventory and property, plant and equipment, which generally have terms of less than 90 days. The Company also has long-term obligations related to its pension and postretirement plans which are discussed in detail in Note 7 "Employee Benefit Plans" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K. As of the most recent actuarial measurement date, the Company is not required to make a minimum contribution for its pension plan for the 2014 calendar year. Postretirement medical claims are paid by the Company as they are submitted, and they are anticipated to be \$0.5 million in 2014 based on actuarial estimates; however, these amounts can vary significantly from year to year because the Company is self-insured.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

The Company's accounting policies are more fully described in Note 1 "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this 2013 Annual Report on Form 10-K. As discussed in Note 1, the preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's more significant estimates relate primarily to the following judgmental reserves: allowance for doubtful accounts, reserve for obsolete inventories, warranty and after-sale costs reserve, and the healthcare reserve for claims incurred, but not reported. Each of these reserves is evaluated quarterly and is reviewed with the Company's Disclosure Committee and the Audit and Compliance Committee of the Board of Directors. The basis for the reserve amounts is determined by analyzing

the anticipated exposure for each account, and then selecting the most likely amount based upon historical experience and various other considerations that are believed to be reasonable under the circumstances. These methods have been used for all years in the presented financials and have been used consistently throughout each year. Actual results may differ from these estimates if actual experiences vary from the Company's assumptions.

The criteria used for calculating each of the reserve amounts vary by type of reserve. For the allowance for doubtful accounts reserve, significant past due balances are individually reviewed for collectibility, while the balance of accounts are reviewed in conjunction with applying historical write-off ratios. The calculation for the obsolete inventories reserve is determined by analyzing the relationship between the age and quantity of items on hand versus estimated usage to determine if excess quantities exist. The calculation for warranty and after-sale costs reserve uses criteria that include known potential problems on past sales as well as historical claim experience and current warranty trends. The healthcare reserve for claims incurred, but not reported is determined by using medical cost trend analyses, reviewing subsequent payments made and estimating unbilled amounts. The changes in the balances of these reserves at December 31, 2013 compared to the prior year were due to normal business conditions and are not deemed to be significant. While the Company continually tries to improve its estimates, no significant changes in the underlying processes are expected in 2014.

The Company also uses estimates in four other significant areas: (i) pension and other postretirement obligations and costs, (ii) stock-based compensation, (iii) income taxes, and (iv) evaluating goodwill at least annually for impairment. The actuarial valuations of benefit obligations and net periodic benefit costs rely on key assumptions including discount rates and long-term expected returns on plan assets. The Company's discount rate assumptions for its pension and postretirement plans are based on the average yield of a hypothetical high quality bond portfolio with maturities that approximately match the estimated cash flow needs of the plans. The assumptions for expected long-term rates of return on assets for its pension plan are based on historical experience and estimated future investment returns, taking into consideration anticipated asset allocations, investment strategies and the views of various investment professionals. The total cost of the Company's stock-based awards is equal to the grant date fair value per award multiplied by the number of awards granted, adjusted for forfeitures. Forfeitures are initially estimated based on historical Company information and subsequently updated over the life of the awards to ultimately reflect actual forfeitures, which could have an impact on the amount of stock compensation cost recognized from period to period. In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known at each interim period. On a quarterly basis, the actual effective tax rate is adjusted as appropriate based upon the actual results compared to those forecasted at the beginning of the fiscal year. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The reserve for uncertainty in income taxes is a matter of judgment based on an evaluation of the individual facts and circumstances of each tax position in light of all available evidence, including historic data and current trends. A tax benefit is recognized when it is "more likely than not" to be sustained based solely on the technical merits of each tax position. The Company evaluates and updates all of these assumptions quarterly. Goodwill impairment, if any, is determined by comparing the fair value of the reporting unit with its carrying value and is reviewed at least annually. Actual results may differ from these estimates.

OTHER MATTERS

The Company is subject to contingencies related to environmental laws and regulations. The Company is named as one of many potentially responsible parties in two landfill lawsuits. The landfill sites are impacted by the Federal Comprehensive Environmental Response, Compensation and Liability Act and other environmental laws and regulations. At this time, the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based on the Company's assessment of its limited past involvement

with these landfill sites as well as the substantial involvement of and government focus on other named third parties with these landfill sites. However, due to the inherent uncertainties of such proceedings, the Company cannot predict the ultimate outcome of any of these matters. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2013, 2012 and 2011 were not material.

Like other companies in recent years, the Company is named as a defendant in numerous pending multi-claimant/multi-defendant lawsuits alleging personal injury as a result of exposure to asbestos, manufactured by third parties, and integrated into or sold with a very limited number of the Company's products. The Company is vigorously defending itself against these claims. Although it is not possible to predict the ultimate outcome of these matters, the Company does not believe the ultimate resolution of these issues will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based in part on the fact

that no claimant has proven or substantially demonstrated asbestos exposure caused by products manufactured or sold by the Company and that a number of cases have been voluntarily dismissed.

See the “Special Note Regarding Forward Looking Statements” at the front of this Annual Report on Form 10-K and Part I, Item 1A “Risk Factors” in this Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of risks and uncertainties that could impact the Company's financial performance and results of operations.

MARKET RISKS

In the ordinary course of business, the Company is exposed to various market risks. The Company operates in an environment where competition varies from moderate to intense. The Company believes it currently provides the leading technology in water meters and radio systems for water utilities. A number of the Company's competitors in certain markets have greater financial resources. Competitors also include alliance partners that sell products that do or may compete with our products, particularly those that provide radio solutions. As the global water metering market begins to shift to adopt electronic (static) technology, the number of competitors may increase. In addition, the market's level of acceptance of the Company's newer product offerings, including the recently introduced BEACON AMA system, may have a significant effect on the Company's results of operations. As a result of significant research and development activities, the Company enjoys favorable patent positions for several of its products.

The Company's ability to generate operating income and to increase profitability depends somewhat on 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 timing and size of governmental programs such as stimulus fund programs, as well as the impact of government budget cuts or partial shutdowns of governmental operations; 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. In addition, changes in governmental laws and regulations, particularly laws dealing with the use of lead or rules affecting the use and/or licensing of radio frequencies necessary for radio products may impact the results of operations. These factors are largely beyond the Company's control and depend on the economic condition and regulatory environment of the geographic region of the Company's operations.

The Company relies on single suppliers for certain castings and components in several of its product lines. Although alternate sources of supply exist for these items, the loss of certain suppliers could temporarily disrupt operations in the short term. The Company attempts to mitigate these risks by working closely with key suppliers, purchasing minimal amounts from alternative suppliers and by purchasing business interruption insurance where appropriate.

Raw materials used in the manufacture of the Company's products include purchased castings made of metal or alloys (such as brass, which uses copper as its main component, aluminum, stainless steel and cast iron), plastic resins, glass, microprocessors and other electronic subassemblies and components. The Company does not hold significant amounts of precious metals. The price and availability of raw materials is influenced by economic and industry conditions, including supply and demand factors that are difficult to anticipate and cannot be controlled by the Company. Commodity risk is managed by keeping abreast of economic conditions and locking in purchase prices for quantities that correspond to the Company's forecasted usage.

The Company's foreign currency risk relates to the sales of products to foreign customers and purchases of material from foreign vendors. The Company uses lines of credit with U.S. and European banks to offset currency exposure related to European receivables and other monetary assets. As of December 31, 2013 and 2012, the Company's foreign currency net monetary assets were partially offset by comparable debt resulting in no material exposure to the results of operations. The Company believes the effect of a change in foreign currency rates will not have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the

financial statements as a whole.

The Company typically does not hold or issue derivative instruments and has a policy specifically prohibiting the use of such instruments for trading purposes.

The Company's short-term debt on December 31, 2013 was floating rate debt with market values approximating carrying value. Future annual interest costs for short-term debt will fluctuate based upon short-term interest rates. For the short-term debt on hand on December 31, 2013, the effect of a 1% change in interest rates is approximately \$0.7 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is set forth in Part II, Item 7 “Management's Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Market Risks” in this 2013 Annual Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

BADGER METER, INC.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). Based on this assessment, the Company's management believes that, as of December 31, 2013, the Company's internal control over financial reporting was effective based on those criteria.

Ernst & Young LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and, as part of its audit, has issued an attestation report, included herein, on the effectiveness of the Company's internal control over financial reporting.

BADGER METER, INC.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Badger Meter, Inc.

We have audited Badger Meter, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Badger Meter, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Badger Meter, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Badger Meter, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 and our report dated February 20, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
February 20, 2014

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BADGER METER, INC.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Badger Meter, Inc.

We have audited the accompanying consolidated balance sheets of Badger Meter, Inc. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Badger Meter, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Badger Meter, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
February 20, 2014

BADGER METER, INC.
Consolidated Balance Sheets

	December 31,	
	2013	2012
	(Dollars in thousands)	
Assets		
Current assets:		
Cash	\$7,263	\$6,554
Receivables	50,133	45,584
Inventories:		
Finished goods	17,704	19,872
Work in process	12,330	13,340
Raw materials	30,905	27,785
Total inventories	60,939	60,997
Prepaid expenses and other current assets	3,994	4,343
Deferred income taxes	4,834	3,896
Total current assets	127,163	121,374
Property, plant and equipment, at cost:		
Land and improvements	8,941	8,919
Buildings and improvements	55,018	51,090
Machinery and equipment	100,179	92,751
	164,138	152,760
Less accumulated depreciation	(87,722	) (82,276
Net property, plant and equipment	76,416	70,484
Intangible assets, at cost less accumulated amortization	57,317	58,351
Prepaid pension	4,312	—
Other assets	6,155	4,314
Goodwill	44,695	35,930
Total assets	\$316,058	\$290,453
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	\$70,045	\$66,730
Payables	18,554	15,551
Accrued compensation and employee benefits	7,337	9,821
Warranty and after-sale costs	882	881
Income and other taxes	1,223	1,097
Total current liabilities	98,041	94,080
Other long-term liabilities	1,324	1,086
Deferred income taxes	9,790	8,692
Accrued non-pension postretirement benefits	5,934	6,489
Other accrued employee benefits	4,406	8,859
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common Stock, \$1 par; authorized 40,000,000 shares; issued 20,503,604 shares in 2013 and 20,441,184 shares in 2012	20,504	20,441
Capital in excess of par value	45,627	41,755
Reinvested earnings	170,318	155,694
Accumulated other comprehensive loss	(7,524) (13,948

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Less: Employee benefit stock	(1,075) (1,234)
Treasury stock, at cost; 6,091,728 shares in 2013 and 6,127,155 shares in 2012	(31,287) (31,461)
Total shareholders' equity	196,563	171,247	
Total liabilities and shareholders' equity	\$316,058	\$290,453	
See accompanying notes.			

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BADGER METER, INC.
Consolidated Statements of Operations

	Years ended December 31,		
	2013	2012	2011
	(In thousands except per share amounts)		
Net sales	\$334,122	\$319,660	\$262,915
Cost of sales	217,133	197,414	173,095
Gross margin	116,989	122,246	89,820
Selling, engineering and administration	77,882	77,777	62,286
Operating earnings	39,107	44,469	27,534
Interest expense, net	1,098	998	185
Earnings before income taxes	38,009	43,471	27,349
Provision for income taxes	13,392	15,439	8,188
Net earnings	\$24,617	\$28,032	\$19,161
Earnings per share:			
Basic	\$1.71	\$1.96	\$1.28
Diluted	\$1.70	\$1.95	\$1.27
Shares used in computation of earnings per share:			
Basic	14,362	14,332	14,971
Impact of dilutive securities	78	67	78
Diluted	14,440	14,399	15,049
See accompanying notes.			

BADGER METER, INC.

Consolidated Statements of Comprehensive Income

	Years ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Net earnings	\$24,617	\$28,032	\$19,161
Other comprehensive income :			
Foreign currency translation adjustment	172	393	(267)
Employee benefit funded status adjustment, net of tax	6,252	225	(1,162)
Comprehensive income	\$31,041	\$28,650	\$17,732
See accompanying notes.			

BADGER METER, INC.
Consolidated Statements of Cash Flows

	Years ended December 31,		
	2013	2012	2011
	(Dollars in thousands)		
Operating activities:			
Net earnings	\$24,617	\$28,032	\$19,161
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation	8,512	7,587	7,144
Amortization	4,982	4,467	2,347
Deferred income taxes	1,462	(551)	(800)
Contributions to pension plan	—	(1,097)	—
Noncurrent employee benefits	1,392	122	4,704
Stock-based compensation expense	1,388	1,266	1,470
Changes in:			
Receivables	(3,991)	) 812	(616)
Inventories	247	(4,743)	) 42
Prepaid expenses and other current assets	368	(905)	) (850)
Liabilities other than debt	(4,159)	) (188)	) (1,285)
Total adjustments	10,201	6,770	12,156
Net cash provided by operations	34,818	34,802	31,317
Investing activities:			
Property, plant and equipment additions	(14,311)	) (8,202)	) (5,336)
Acquisitions, net of cash acquired	(15,401)	) (51,518)	) (3,954)
Net cash used for investing activities	(29,712)	) (59,720)	) (9,290)
Financing activities:			
Net increase (decrease) in short-term debt	3,205	65,136	(11,893)
Dividends paid	(10,004)	) (9,513)	) (9,023)
Proceeds from exercise of stock options	1,640	382	236
Tax benefit on stock options	382	297	190
Repurchase of Common Stock	—	(30,000)) —
Issuance of treasury stock	498	477	493
Net cash provided by (used for) financing activities	(4,279)	) 26,779	) (19,997)
Effect of foreign exchange rates on cash	(118)	) (282)	) (144)
Increase in cash	709	1,579	1,886
Cash — beginning of year	6,554	4,975	3,089
Cash — end of year	\$7,263	\$6,554	\$4,975
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	\$15,292	\$15,247	\$10,308
Interest	\$1,114	\$1,113	\$324
See accompanying notes.			

BADGER METER, INC.

Consolidated Statements of Shareholders' Equity

	Years ended December 31,						
	Common Stock at \$1 par value*	Capital in excess of par value	Reinvested earnings	Accumulated other comprehensive income (loss)	Employee benefit stock	Treasury stock	Total
	(In thousands except per share amounts)						
Balance, December 31, 2010	\$21,259	\$37,582	\$156,101	\$ (13,137)	\$(1,536)	\$(31,886)	\$168,383
Net earnings	—	—	19,161	—	—	—	19,161
Employee benefit funded status adjustment (net of \$835 tax effect)	—	—	—	(1,162)	—	—	(1,162)
Foreign currency translation	—	—	—	(267)	—	—	(267)
Cash dividends of \$0.60 per share	—	—	(8,991)	—	—	—	(8,991)
Stock options exercised	33	202	—	—	—	—	235
Tax benefit on stock options and dividends	—	190	—	—	—	—	190
ESSOP transactions	—	53	—	—	51	—	104
Stock-based compensation	—	1,134	—	—	—	—	1,134
Issuance of treasury stock (41 shares)	—	284	—	—	—	210	494
Balance, December 31, 2011	21,292	39,445	166,271	(14,566)	(1,485)	(31,676)	179,281
Net earnings	—	—	28,032	—	—	—	28,032
Employee benefit funded status adjustment (net of \$(247) tax effect)	—	—	—	225	—	—	225
Foreign currency translation	—	—	—	393	—	—	393
Cash dividends of \$0.66 per share	—	—	(9,497)	—	—	—	(9,497)
Stock options exercised	37	345	—	—	—	—	382
Tax benefit on stock options and dividends	—	297	—	—	—	—	297
ESSOP transactions	—	141	—	—	251	—	392
Stock-based compensation	—	1,266	—	—	—	—	1,266
Shares purchased and retired	(888)	—	(29,112)	—	—	—	(30,000)
Issuance of treasury stock (42 shares)	—	261	—	—	—	215	476
Balance, December 31, 2012	20,441	41,755	155,694	(13,948)	(1,234)	(31,461)	171,247
Net earnings	—	—	24,617	—	—	—	24,617
Employee benefit funded status adjustment (net of \$(3,826) tax effect)	—	—	—	6,252	—	—	6,252
Foreign currency translation	—	—	—	172	—	—	172
Cash dividends of \$0.70 per share	—	—	(9,993)	—	—	—	(9,993)

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Stock options exercised	63	1,577	—	—	—	—	1,640
Tax benefit on stock options and dividends	—	382	—	—	—	—	382
ESSOP transactions	—	201	—	—	159	—	360
Stock-based compensation	—	1,388	—	—	—	—	1,388
Issuance of treasury stock (35 shares)	—	324	—	—	—	174	498
Balance, December 31, 2013	\$20,504	\$45,627	\$170,318	\$ (7,524)	\$ (1,075)	\$ (31,287)	\$196,563

* Each common share of stock equals \$1 par value; therefore, the number of common shares is the same as the dollar value.

See accompanying notes.

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BADGER METER, INC.

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

Note 1 Summary of Significant Accounting Policies

Profile

An innovator in flow measurement and control products, the Company serves water utilities, municipalities, and commercial and industrial customers worldwide. Measuring water, oil, chemicals and other fluids, the Company's products are known for accuracy, long-lasting durability and for providing valuable and timely measurement data. The Company's product lines fall into three categories: sales of water meters and related technologies to municipal water utilities (municipal water), sales of meters to various industries for water and other fluids (industrial flow), and sales of gas meter radios and concrete vibrators to unique markets (specialty products). The Company estimates that over 75% of its products are used in water applications when all categories are grouped together.

Municipal water, the largest category by sales volume, includes mechanical and electronic (static) water meters and related technologies and services used by water utilities as the basis for generating water and wastewater revenues. The key market for the Company's water meter products is North America, primarily the United States, because most meters are designed and manufactured to conform to standards promulgated by the American Water Works Association. Sales of water meters and related technologies and services are commonly referred to as residential or commercial water meter sales, the latter referring to larger sizes of meters.

Industrial flow includes products sold worldwide to measure and control materials flowing through a pipe or pipeline including water, air, steam, oil, and other liquids and gases. These meters and valves are used in a variety of applications, such as water/wastewater; heating, ventilating and air conditioning (HVAC); oil and gas; chemical and petrochemical; food and beverage; and pharmaceutical production.

Specialty products include sales of radio technology to natural gas utilities for installation on their gas meters, and concrete vibrators.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Receivables

Receivables consist primarily of trade receivables. The Company does not require collateral or other security and evaluates the collectability of its receivables based on a number of factors. An allowance for doubtful accounts is recorded for significant past due receivable balances based on a review of the past due items and the customer's ability and likelihood to pay, as well as applying a historical write-off ratio to the remaining balances. Changes in the Company's allowance for doubtful accounts are as follows:

	Balance at beginning of year (In thousands)	Provision and reserve adjustments	Write-offs less recoveries	Reserve acquired	Balance at end of year
2013	\$488	\$78	\$(35)	\$—	\$531
2012	\$298	\$138	\$(30)	\$82	(a) \$488
2011	\$441	\$91	\$(274)	\$40	(b) \$298

(a) The reserve increased \$82,000 in 2012 related to the acquisition of Racine Federated Inc. Refer to Note 3 “Acquisitions” for a description of the acquisition.

(b) The reserve increased \$40,000 in 2011 related to the acquisition of Remag AG. Refer to Note 3 “Acquisitions” for a description of the acquisition.

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. The Company estimates and records provisions for obsolete inventories. Changes to the Company's obsolete inventories reserve are as follows:

	Balance at beginning of year (In thousands)	Net additions charged to earnings	Disposals	Balance at end of year
2013	\$2,880	\$2,322	\$(966)	) \$4,236
2012	\$2,680	\$1,082	\$(882)	) \$2,880
2011	\$2,775	\$328	\$(423)	) \$2,680

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets by the straight-line method. The estimated useful lives of assets are: for land improvements, 15 years; for buildings and improvements, 10 — 39 years; and for machinery and equipment, 3 — 20 years.

Long-Lived Assets

Property, plant and equipment and identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. No adjustments were recorded as a result of these reviews during 2013, 2012 and 2011.

Intangible Assets

Intangible assets are amortized on a straight-line basis over their estimated useful lives ranging from 5 to 20 years. The Company does not have any intangible assets deemed to have indefinite lives. Amortization expense recognized for the years ending December 31, 2013, 2012 and 2011 was \$5.0 million, \$4.5 million and \$2.3 million, respectively. Amortization expense expected to be recognized is \$5.0 million in each of the subsequent four years beginning with 2014, \$4.9 million in 2018 and \$32.4 million thereafter. The carrying value and accumulated amortization by major class of intangible assets are as follows:

	December 31, 2013		December 31, 2012	
	Gross carrying amount (In thousands)	Accumulated amortization	Gross carrying amount	Accumulated amortization
Technologies	\$47,157	\$10,384	\$43,828	\$7,609
Non-compete agreements	1,932	1,048	1,932	862
Licenses	650	407	650	390
Customer lists	3,423	679	3,423	483
Customer relationships	11,690	2,218	11,500	1,054
Trade names	8,615	1,414	8,223	807

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Total intangibles	\$73,467	\$16,150	\$69,556	\$11,205
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Goodwill

Goodwill is tested for impairment annually during the fourth fiscal quarter or more frequently if an event indicates that the goodwill might be impaired. Potential impairment is identified by comparing the fair value of a reporting unit with its carrying value. No adjustments were recorded to goodwill as a result of these reviews during 2013, 2012 and 2011.

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BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

Goodwill was \$44.7 million, \$35.9 million and \$9.4 million at December 31, 2013, 2012 and 2011, respectively. The increases were the result of the Aquacue, Inc. of Los Gatos, California acquisition in 2013, the Racine Federated, Inc. of Racine, Wisconsin acquisition in 2012 and the Remag, AG of Bern, Switzerland acquisition in 2011. These acquisitions are further described in Note 3 "Acquisitions."

Revenue Recognition

Revenues are generally recognized upon shipment of product, which corresponds with the transfer of title. The costs of shipping are billed to the customer upon shipment and are included in cost of sales. A small portion of the Company's sales includes shipments of products combined with services, such as meters sold with installation. The product and installation components of these multiple deliverable arrangements are considered separate units of accounting. The value of these separate units of accounting is determined based on their relative fair values determined on a stand-alone basis. Revenue is generally recognized when the last element of the multiple deliverable is delivered, which corresponds with installation and acceptance by the customer. The Company also sells a small number of extended support service agreements on certain products for the period subsequent to the normal support service provided with the original product sale. Revenue is recognized over the service agreement period, which is generally one year.

Warranty and After-Sale Costs

The Company estimates and records provisions for warranties and other after-sale costs in the period in which the sale is recorded, based on a lag factor and historical warranty claim experience. After-sale costs represent a variety of activities outside of the written warranty policy, such as investigation of unanticipated problems after the customer has installed the product, or analysis of water quality issues. Changes in the Company's warranty and after-sale costs reserve are as follows:

	Balance at beginning of year (In thousands)	Net additions charged to earnings	Costs incurred and adjustments	Reserve acquired		Balance at end of year
2013	\$881	\$1,005	\$(1,068)	) \$64	(a)	\$882
2012	\$1,593	\$719	\$(1,431)	) \$—		\$881
2011	\$889	\$1,592	(b) \$(888)	) \$—		\$1,593

(a) The reserve increased \$64,000 in 2013 related to the acquisition of Aquacue, Inc. Refer to Note 3 "Acquisitions" for a description of the acquisition.

(b) Included in the 2011 increase in the reserve was \$0.6 million related to a specific product issue.

Research and Development

Research and development costs are charged to expense as incurred and amounted to \$10.5 million, \$9.6 million and \$8.1 million in 2013, 2012 and 2011, respectively.

Stock-Based Compensation Plans

As of December 31, 2013, the Company has an Omnibus Incentive Plan under which 700,000 shares are reserved for restricted stock and stock options grants for employees as well as stock grants for directors as described in Note 5 "Stock Compensation." The plan was approved in 2011 and replaced all prior stock-based plans except for shares and options previously issued under those plans.

The Company recognizes the cost of stock-based awards in net earnings for all of its stock-based compensation plans on a straight-line basis over the service period of the awards. The Company estimates the fair value of its option awards using the Black-Scholes option-pricing formula, and records compensation expense for stock options ratably over the stock option grant's vesting period. The Company values restricted stock and stock grants for directors on the closing price of the Company's stock on the day the grant was awarded. Total stock compensation expense recognized by the Company was \$1.4 million for 2013, \$1.3 million for 2012 and \$1.5 million for 2011.

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

Healthcare

The Company estimates and records provisions for healthcare claims incurred but not reported, based on medical cost trend analyses, reviews of subsequent payments made and estimates of unbilled amounts.

Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss at December 31 are as follows:

	Unrecognized pension and postretirement benefits (In thousands)	Foreign currency	Total
Balance at beginning of period	\$(15,532)	\$1,584	\$(13,948)
Other comprehensive income before reclassifications	5,116	172	5,288
Amounts reclassified from accumulated other comprehensive loss, net of tax of \$(0.6) million	1,136	—	1,136
Net current period other comprehensive income, net	6,252	172	6,424
Accumulated other comprehensive (loss) income	\$(9,280)	\$1,756	\$(7,524)

Details of reclassifications out of accumulated other comprehensive loss during 2013 are as follows:

	Amount reclassified from accumulated other comprehensive loss (In thousands)
Amortization of employee benefit plan items:	
Prior service cost (1)	\$161
Settlement expense (1)	806
Amortization of actuarial loss (1)	786
Total before tax	1,753
Income tax benefit	(617)
Amount reclassified out of accumulated other comprehensive loss	\$1,136

(1) These accumulated other comprehensive loss components are included in the computation of benefit plan costs in Note 7 "Employee Benefit Plans."

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements of Financial Instruments

The carrying amounts of cash, receivables and payables in the financial statements approximate their fair values due to the short-term nature of these financial instruments. Short-term debt is comprised of notes payable drawn against the Company's lines of credit and commercial paper. Because of its short-term nature, the carrying amount of the short-term debt also approximates fair value. Included in other assets are insurance policies on various individuals who were associated with the Company. The carrying amounts of these insurance policies approximate their fair value.

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

Subsequent Events

The Company evaluates subsequent events at the date of the balance sheet as well as conditions that arise after the balance sheet date but before the financial statements are issued. The effects of conditions that existed at the date of the balance sheet date are recognized in the financial statements. Events and conditions arising after the balance sheet date but before the financial statements are issued are evaluated to determine if disclosure is required to keep the financial statements from being misleading. To the extent such events and conditions exist, if any, disclosures are made regarding the nature of events and the estimated financial effects for those events and conditions. For purposes of preparing the accompanying consolidated financial statements and the notes to these financial statements, the Company evaluated subsequent events through the date the accompanying financial statements were issued.

Note 2 Common Stock

Common Stock and Rights Agreement

The Company has Common Stock and also Common Share Purchase Rights that trade with the Common Stock. The Common Share Purchase Rights were issued pursuant to the shareholder rights plan discussed below.

On February 15, 2008, the Board of Directors of the Company adopted a shareholder rights plan and declared a dividend of one Common Share Purchase Right for each outstanding share of Common Stock of the Company payable to the shareholders of record on May 26, 2008. The plan was effective as of May 27, 2008. Each right entitles the registered holder to purchase from the Company one share of Common Stock at a price of \$200.00 per share, subject to adjustment. Subject to certain conditions, the rights are redeemable by the Company and are exchangeable for shares of Common Stock at a favorable price. The rights have no voting power and unless the rights are redeemed, exchanged or terminated earlier, they will expire on May 26, 2018. The rights are an embedded feature of the Company's Common Stock and not a free-standing instrument, and therefore, do not require separate accounting treatment.

In 2012, the Company's Board of Directors authorized a share repurchase program up to \$30.0 million in shares of Common Stock in the open market for a period of two years ending February 10, 2014, if not terminated sooner. At December 31, 2012, 888,056 shares were repurchased aggregating \$30.0 million, which completed this program.

Stock Options

Stock options to purchase 23,258, 60,400 and 137,720 shares of the Company's Stock in 2013, 2012 and 2011, respectively, were not included in the computation of dilutive securities because the exercise price was greater than the average stock price for that period, and accordingly their inclusion would have been anti-dilutive.

Note 3 Acquisitions

On April 1, 2013, the Company acquired 100.00% of the outstanding common stock of Aquacue, Inc. ("Aquacue") of Los Gatos, California. The Aquacue acquisition provides the Company with intellectual property that complements and expands the Company's advanced metering analytics offerings by adding an integrated software platform that allows utility managers to monitor and control their water systems, while providing water management data to consumers. Sales of Aquacue products were immaterial for 2013.

The purchase price was \$13.8 million in cash, including a small working capital adjustment. The purchase price included a final \$3.0 million payment, of which half was due January 10, 2014 and half is due October 10, 2014, and these amounts were recorded in payables on the Consolidated Balance Sheets at December 31, 2013. The Company's allocation of the purchase price as of December 31, 2013 included \$0.1 million of current assets, \$1.3 million of deferred tax assets, \$3.9 million of intangibles, \$8.8 million of goodwill and \$0.3 million of current liabilities. As of December 31, 2013, the Company has completed its analysis for estimating the fair value of the assets acquired and liabilities assumed. The intangible assets acquired are primarily developed technology with an estimated average useful life of 10 years. There was approximately \$0.1 million of transaction costs related to the acquisition that were included in selling, engineering and administration for 2013 in the Company's Consolidated Statements of Operations. The Company merged Aquacue into Badger Meter, Inc. on December 31, 2013.

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

The acquisition was accounted for under the purchase method, and accordingly, the results of operations were included in the Company's financial statements from the date of acquisition. The acquisition did not have a material impact on the Company's consolidated financial statements or the notes thereto.

On January 31, 2012, the Company completed its acquisition of 100% of the outstanding common stock of Racine Federated, Inc. of Racine, Wisconsin and its subsidiary Premier Control Technologies, Ltd. ("PCT") located in Thetford, England for approximately \$57.3 million in cash, plus a working capital adjustment of \$0.3 million. The purchase price included a final \$4.6 million payment which was due on July 31, 2013 and included in payables at December 31, 2012. Racine Federated manufactures and markets flow meters for the water industry as well as various industrial metering and specialty products. These products complement and expand the Company's existing lines for the global flow measurement business.

The acquisition was accounted for under the purchase method, and accordingly, the results of operations are included in the Company's financial statements from the date of acquisition. During the fourth quarter of 2012, the Company sold PCT for a nominal amount after the majority of its functions were absorbed by the Company's European subsidiary. The Company also merged Racine Federated into Badger Meter, Inc. on December 31, 2012.

The following table summarizes the fair value of the assets acquired and the liabilities assumed as of the acquisition date:

	January 31, 2012 (In thousands)
Assets acquired:	
Cash	\$1,529
Receivables	5,230
Inventories	7,603
Prepaid expenses and other current assets	164
Current deferred income taxes	247
Property, plant and equipment	3,772
Intangible assets	29,100
Goodwill	26,565
Total assets acquired	\$74,210
Liabilities assumed:	
Payables	\$2,920
Accrued compensation and employee benefits	1,785
Long-term deferred income taxes	11,457
Other long-term liabilities	451
Total liabilities assumed	\$16,613

The intangible assets acquired are primarily customer relationships and developed technology with an estimated average useful life of 10 and 15 years, respectively.

The following unaudited pro forma information combines historical results as if Racine Federated had been owned by the Company for the twelve-month periods presented.

2012	2011
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	(In thousands except per share amounts)	
Net sales	\$323,516	\$305,562
Net earnings	\$28,177	\$21,261
Diluted earnings per share	\$1.96	\$1.41

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BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

The pro forma results include amortization of the intangibles mentioned above, interest expense on debt incurred to finance the acquisition, the elimination of certain acquisition costs and the income tax effect on the pro forma adjustments. The pro forma results are not necessarily indicative of what would have occurred if the acquisition had been completed as of the beginning of each fiscal period presented, nor are they necessarily indicative of future consolidated results.

On January 26, 2011, the Company purchased Remag AG of Bern, Switzerland for \$4.9 million. Remag manufactures and markets a small plastic turbine meter used in HVAC and white goods. The Company included these products with its other industrial flow products. The Company's purchase price allocation included \$0.9 million of cash, plus approximately \$0.4 million of receivables, \$0.4 million of inventory, \$0.3 million of other assets, \$2.0 million of fixed assets, \$1.8 million of intangibles, \$0.2 million of goodwill and \$1.1 million of liabilities.

The Remag acquisition was accounted for under the purchase method, and accordingly, the results of operations were included in the Company's financial statements from the date of acquisition. The acquisition did not have a material impact on the Company's consolidated financial statements or the notes thereto.

Note 4 Short-term Debt and Credit Lines

Short-term debt at December 31, 2013 and 2012 consisted of:

	2013	2012
	(In thousands)	
Notes payable to banks	\$4,795	\$3,300
Commercial paper	65,250	63,430
Total short-term debt	\$70,045	\$66,730

Included in notes payable to banks was \$4.8 million outstanding in 2013 under a 4.0 million Euro-base revolving loan facility (U.S. dollar equivalent of \$5.5 million at December 31, 2013) that does not expire, and which bore interest at 1.72%. In 2012, included in notes payable to banks was \$3.3 million outstanding under a 4.0 million Euro-based revolving loan facility (U.S. dollar equivalent of \$5.3 million at December 31, 2012) which bore interest at 1.56%.

On May 23, 2012, the Company signed a new credit agreement which increased its principal line of credit (increasing it from \$90.0 million to \$125.0 million) for a three year period. The line is permanently reduced by \$16.7 million annually beginning in 2013. The line was increased to meet short-term cash needs, if any, that may arise as the result of funding the acquisition of Racine Federated with cash, as well as any cash needs resulting from the \$30.0 million stock repurchase program that began in the first quarter of 2012 and ended in the second quarter of 2012. The issuance of commercial paper may comprise a maximum of \$70.0 million of the line of credit. Borrowings of commercial paper bore interest at 1.25% in 2013 and 1.35% in 2012. While the facility is unsecured, there are a number of financial covenants in effect for the period with which the Company is in compliance. Under the principal line of credit at December 31, 2013, the Company has \$43.1 million available out of its total \$47.8 million available short-term credit lines.

Note 5 Stock Compensation

As of December 31, 2013, the Company has an Omnibus Incentive Plan under which 700,000 shares are reserved for restricted stock and stock options grants for employees as well as stock grants for directors. The plan was approved in

2011 and replaced all prior stock-based plans except for shares and options previously issued under those plans. As of December 31, 2013 and 2012, there were 505,000 shares and 552,000 shares of the Company's Common Stock available for grant under the 2011 Omnibus Incentive Plan. The Company recognizes the cost of stock-based awards in net earnings for all of its stock-based compensation plans on a straight-line basis over the service period of the awards. The following sections describe the three types of grants in more detail.

Stock Options

The Company estimates the fair value of its option awards using the Black-Scholes option-pricing formula, and records compensation expense for stock options ratably over the stock option grant's vesting period. Stock option

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

compensation expense recognized by the Company for the year ended December 31, 2013 related to stock options was \$0.5 million compared to \$0.4 million in 2012 and \$0.4 million in 2011.

The following table summarizes the transactions of the Company's stock option plans for the three-year period ended December 31, 2013:

	Number of shares	Weighted-average exercise price
Options outstanding — December 31, 2010	251,250	\$ 26.59
Options granted	31,500	\$ 36.59
Options exercised	(33,180)	\$ 7.07
Options forfeited	(4,480)	38.20
Options outstanding — December 31, 2011	245,090	\$ 30.30
Options granted	45,100	\$ 36.15
Options exercised	(37,450)	\$ 10.25
Options forfeited	(5,160)	\$ 37.19
Options outstanding — December 31, 2012	247,580	\$ 34.26
Options granted	23,258	\$ 51.29
Options exercised	(66,660)	\$ 24.91
Options forfeited	(1,800)	\$ 37.78
Options outstanding — December 31, 2013	202,378	\$ 39.27
Price range \$9.14 — \$36.15 (weighted-average contractual life of 6.3 years)	67,560	\$ 32.58
Price range \$36.16 — \$38.41 (weighted-average contractual life of 6.8 years)	57,260	\$ 37.57
Price range \$38.42 — \$52.81 (weighted-average contractual life of 6.2 years)	77,558	\$ 46.35
Options outstanding - December 31, 2013	202,378	
Exercisable options —		
December 31, 2011	152,762	\$ 25.29
December 31, 2012	141,740	\$ 31.72
December 31, 2013	113,060	\$ 38.18

The following assumptions were used for valuing options granted in the years ended December 31:

	2013	2012	
Per share fair value of options granted during the period	\$20.34	\$13.17	
Risk-free interest rate	0.82	% 0.85	%
Dividend yield	1.31	% 1.77	%
Volatility factor	49.7	% 49.7	%
Weighted-average expected life in years	5.3	5.3	

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

The expected life is based on historical exercise behavior and the projected exercise of unexercised stock options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the date of grant for the respective expected life of the option. The expected dividend yield is based on the expected annual dividends divided by the grant date market value of the Company's Common Stock. The expected volatility is based on the historical volatility of the Company's Common Stock.

The following table summarizes the aggregate intrinsic value related to options exercised, outstanding and exercisable as of and for the years ended December 31:

	2013	2012
	(In thousands)	
Exercised	\$1,743	\$950
Outstanding	\$3,083	\$3,371
Exercisable	\$1,846	\$2,316

As of December 31, 2013, the unrecognized compensation cost related to stock options was approximately \$1.0 million, which will be recognized over a weighted average period of 2.3 years.

Director Stock Grant

Non-employee directors receive an annual award of \$50,000 worth of shares of the Company's Common Stock under the shareholder-approved 2011 Omnibus Incentive Plan. The Company values stock grants for directors on the closing price of the Company's stock on the day the grant was awarded. The Company records compensation expense for this plan ratably over the annual service period beginning May 1. Director stock compensation expense recognized by the Company for the year ended December 31, 2013, 2012 and 2011 was \$0.4 million in each year. As of December 31, 2013, the unrecognized compensation cost related to the director stock award that is expected to be recognized over the remaining four months is estimated to be approximately \$0.1 million.

Restricted Stock

The Company periodically issues nonvested shares of the Company's Common Stock to certain eligible employees, generally with a three-year cliff vesting period contingent on employment. The Company values restricted stock on the closing price of the Company's stock on the day the grant was awarded. The Company records compensation expense for these plans ratably over the vesting periods. Nonvested stock compensation expense recognized by the Company for the year ended December 31, 2013 was \$0.9 million compared to \$0.9 million in 2012 and \$0.7 million in 2011.

The fair value of nonvested shares is determined based on the market price of the shares on the grant date.

	Shares	Fair value per share
Nonvested at December 31, 2010	47,900	\$41.52
Granted	28,650	\$36.59
Vested	(10,900)	) \$51.26
Forfeited	(2,350)) \$39.30
Nonvested at December 31, 2011	63,300	\$37.69
Granted	30,325	\$36.15

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Vested	(17,900) \$38.69
Forfeited	(1,900) \$21.77
Nonvested at December 31, 2012	73,825	\$37.01
Granted	21,425	\$51.12
Vested	(16,875) \$38.41
Forfeited	(3,900) \$37.69
Nonvested at December 31, 2013	74,475	\$40.54

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BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

As of December 31, 2013, there was \$1.3 million of unrecognized compensation cost related to nonvested restricted stock that is expected to be recognized over a weighted average period of 1.3 years.

Note 6 Commitments and Contingencies

Commitments

The Company leases equipment and facilities under non-cancelable operating leases, some of which contain renewal options. Total future minimum lease payments consisted of the following at December 31, 2013:

	Total leases (In thousands)
2014	\$1,681
2015	1,459
2016	1,087
2017	1,030
2018	964
Thereafter	6,670
Total lease obligations	\$12,891

Total rental expense charged to operations under all operating leases was \$2.8 million, \$2.7 million and \$1.7 million in 2013, 2012 and 2011, respectively.

The Company makes commitments in the normal course of business. At December 31, 2013, the Company had various contractual obligations, specifically operating leases that totaled \$12.9 million, of which \$1.7 million is due in 2014 and the remainder due between 2015 and 2025.

Contingencies

In the normal course of business, the Company is named in legal proceedings. There are currently no material legal proceedings pending with respect to the Company. The more significant legal proceedings are discussed below.

The Company is subject to contingencies related to environmental laws and regulations. The Company is named as one of many potentially responsible parties in two landfill lawsuits. The landfill sites are impacted by the Federal Comprehensive Environmental Response, Compensation and Liability Act and other environmental laws and regulations. At this time, the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based on the Company's assessment of its limited past involvement with these landfill sites as well as the substantial involvement of and government focus on other named third parties with these landfill sites. However, due to the inherent uncertainties of such proceedings, the Company cannot predict the ultimate outcome of any of these matters. A future change in circumstances with respect to these specific matters or with respect to sites formerly or currently owned or operated by the Company, off-site disposal locations used by the Company, and property owned by third parties that is near such sites, could result in future costs to the Company and such amounts could be material. Expenditures for compliance with environmental control provisions and regulations during 2013, 2012 and 2011 were not material.

Like other companies in recent years, the Company is named as a defendant in numerous pending multi-claimant/multi-defendant lawsuits alleging personal injury as a result of exposure to asbestos, manufactured by third parties, and integrated into or sold with a very limited number of the Company's products. The Company is vigorously defending itself against these claims. Although it is not possible to predict the ultimate outcome of these matters, the Company does not believe the ultimate resolution of these issues will have a material adverse effect on the Company's financial position or results of operations, either from a cash flow perspective or on the financial statements as a whole. This belief is based in part on the fact that no claimant has proven or substantially demonstrated asbestos exposure caused by products manufactured or sold by the Company and that a number of cases have been voluntarily dismissed.

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

The Company relies on single suppliers for most brass castings and certain electronic subassemblies in several of its product lines. The Company believes these items would be available from other sources, but that the loss of certain suppliers would result in a higher cost of materials, delivery delays, short-term increases in inventory and higher quality control costs in the short term. The Company attempts to mitigate these risks by working closely with key suppliers, purchasing minimal amounts from alternative suppliers and by purchasing business interruption insurance where appropriate.

The Company reevaluates its exposures on a periodic basis and makes adjustments to reserves as appropriate.

Note 7 Employee Benefit Plans

The Company maintains a non-contributory defined benefit pension plan that covers substantially all U.S. employees who were employed at December 31, 2011. After that date, no further benefits are being accrued in this plan. The Company also maintains supplemental non-qualified pension plans for certain officers and other key employees, and an Employee Savings and Stock Option Plan (“ESSOP”). For the frozen pension plan, benefits are based primarily on years of service and, for certain plans, levels of compensation.

The Company also has a postretirement healthcare benefit plan that provides medical benefits for certain U.S. retirees and eligible dependents hired prior to November 1, 2004. Employees are eligible to receive postretirement healthcare benefits upon meeting certain age and service requirements. No employees hired after October 31, 2004 are eligible to receive these benefits. This plan requires employee contributions to offset benefit costs.

Amounts included in accumulated other comprehensive loss, net of tax, at December 31, 2013 that have not yet been recognized in net periodic benefit cost are as follows:

	Pension plans	Other postretirement benefits
	(In thousands)	
Prior service cost	\$—	\$93
Net actuarial loss	\$9,157	\$30

Amounts included in accumulated other comprehensive loss, net of tax, at December 31, 2013 expected to be recognized in net periodic benefit cost during the fiscal year ending December 31, 2014 are as follows:

	Pension plans	Other postretirement benefits
	(In thousands)	
Prior service credit	\$—	\$99
Net actuarial loss	\$378	\$—

Qualified Pension Plan

The Company maintains a non-contributory defined benefit pension plan (sometimes referred to as the “qualified pension plan”) for certain employees. On December 31, 2010, the Company froze the qualified pension plan for its non-union participants and formed a new defined contribution feature within the ESSOP plan in which each employee

received a similar benefit. On December 31, 2011, the Company froze the qualified pension plan for its union participants and included them in the same defined contribution feature within the ESSOP. After December 31, 2011, employees receive no future benefits under the qualified pension benefit plan as benefits were frozen and the employees now receive a defined contribution in its place. Employees will continue to earn returns on their frozen balances.

BADGER METER, INC.

Notes to Consolidated Financial Statements (continued)

December 31, 2013, 2012 and 2011

The following table sets forth the components of net periodic pension cost for the years ended December 31, 2013, 2012 and 2011 based on a December 31 measurement date:

	2013	2012	2011
	(In thousands)		
Service cost — benefits earned during the year	\$5	\$6	\$464
Interest cost on projected benefit obligations	1,842	2,205	2,415
Expected return on plan assets	(2,744)		