

CIM Commercial Trust Corp  
Form 4  
April 30, 2014

**FORM 4** UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287  
Expires: January 31, 2005  
Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
RESSLER RICHARD S

2. Issuer Name and Ticker or Trading Symbol  
CIM Commercial Trust Corp  
[CMCT]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)  
04/28/2014

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6922 HOLLYWOOD BLVD, NINTH FLOOR

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

LOS ANGELES, CA 90028

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock	04/28/2014		P <sup>(1)</sup>	3,120 <sub>(7)</sub> A \$ 23.054 <sub>(2)</sub>	79,260 <sub>(3)</sub>	I	See footnote <sub>(4)</sub>
Common Stock	04/30/2014		P <sup>(1)</sup>	3,100 A \$ 22.921 <sub>(5)</sub>	82,360 <sub>(3)</sub>	I	See footnote <sub>(4)</sub>
Common Stock					4,400,000 <sub>(7)</sub> <sub>(3)</sub>	I	See footnote <sub>(6)</sub>

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned (Instr. 5)
--	--	--------------------------------------	--	--------------------------------	---	--	---	--	--

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RESSLER RICHARD S 6922 HOLLYWOOD BLVD NINTH FLOOR LOS ANGELES, CA 90028	X	X		

## Signatures

/s/ Eric Rubinfeld, attorney  
in fact

04/30/2014

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) The purchases reported on this Form 4 were effected pursuant to a Rule 10b5-1 trading plan adopted by CIM Service Provider, LLC on January 29, 2014.  
The price reported in Column 4 is a weighted average price. These shares were purchased in multiple transactions at prices ranging from \$22.85 to \$23.15, inclusive. The reporting person undertakes to provide to PMC Commercial Trust, any security holder of PMC Commercial Trust, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the ranges set forth in footnotes (2) and (5). The prices reported in this footnote has been adjusted to reflect a 1-for-5 reverse stock split that became effective on April 29, 2014.
  - (3) The reporting person disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein, and the inclusion of these shares in this report shall not be deemed an admission of beneficial ownership of all of the reported shares for purposes

## Edgar Filing: CIM Commercial Trust Corp - Form 4

of Section 16 or for any other purpose.

These shares are owned directly by CIM Service Provider, LLC. The reporting person, together with Shaul Kuba and Avraham Shemesh, is a control person of CIM Holdings, Inc., which is the sole managing member of CIM Group, LLC, which is the sole equity member of

- (4) CIM Service Provider, LLC. The reporting person, CIM Holdings, Inc. and CIM Group, LLC are indirect beneficial owners of 82,360 shares, subject to footnote (3) herein.
- (5) The price reported in Column 4 is a weighted average price. These shares were purchased in multiple transactions at prices ranging from \$22.85 to \$23.08, inclusive.

These shares are owned directly by Urban Partners II, LLC. The reporting person, together with Shaul Kuba and Avraham Shemesh, is a control person of CIM Holdings, Inc., which is the sole managing member of CIM Group, LLC, which is the sole manager of CIM Urban Partners GP LLC, which is the sole managing member of Urban Partners II, LLC. The reporting person, CIM Holdings, Inc., CIM Group, LLC and CIM Urban Partners GP, LLC are indirect beneficial owners of 4,400,000 shares, subject to footnote (3) herein.

- (6)
- (7) The number reported in this Column has been adjusted to reflect a 1-for-5 reverse stock split that became effective on April 29, 2014.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. "font-family:inherit;font-size:10pt;">

### Part II. Other Information:

Item 6

Exhibits

20

Signatures

21

Exhibit Index

22

2

---

Table of Contents

## Special Note Regarding Forward Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, as well as other information provided from time to time by Badger Meter, Inc. (the "Company") or its employees, may contain forward looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. The words "anticipate," "believe," "estimate," "expect," "think," "should," "could" 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, 2011 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 AMR/AMI connectivity solutions, and particularly those that sell products that do or may compete with the Company's products;
- changes in the general health of the United States and foreign economies, including to some extent such things as the length and severity of global economic downturns, the ability of municipal water utility customers to authorize and finance purchases of the Company's products, the Company's ability to obtain financing, housing starts in the United States, and overall industrial activity;
- the timing and impact of government programs to stimulate national and global economies;
- changes in the cost and/or availability of needed raw materials and parts, such as volatility in the cost of brass castings as a result of fluctuations in commodity prices, particularly for copper and scrap metal at the supplier level, foreign-sourced electronic components as a result of currency exchange fluctuations and/or lead times, and plastic resin as a result of changes in petroleum and natural gas prices;
- the Company's expanded role as a prime contractor for providing complete AMR/AMI/AMA systems to governmental entities, which brings with it added risks, including but not limited to, the Company's responsibility for subcontractor performance, additional costs and expenses if the Company and its subcontractors fail to meet the timetable agreed to with the governmental entity, and the Company's expanded warranty and performance obligations;
- the Company's ability to successfully integrate acquired businesses or products;
- changes in foreign economic conditions, particularly currency fluctuations in the United States dollar, the Euro and the Mexican peso;
- 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 AMR/AMI/AMA products.

All of these factors are beyond the Company's control to varying degrees. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward looking statements contained in this Quarterly Report on Form 10-Q and are cautioned not to place undue reliance on such forward looking statements. The forward looking statements made in this document are made only as of the date of this document and the Company assumes no obligation, and disclaims any obligation, to update any such forward looking statements to reflect subsequent events or circumstances.

Table of Contents

## Part I – Financial Information

## Item 1 Financial Statements

## BADGER METER, INC.

## Consolidated Condensed Balance Sheets

	September 30, 2012 (Unaudited) (In thousands)	December 31, 2011
Assets		
Current assets:		
Cash	\$6,056	\$4,975
Receivables	53,689	41,168
Inventories:		
Finished goods	19,806	13,476
Work in process	13,400	11,377
Raw materials	27,008	24,583
Total inventories	60,214	49,436
Prepaid expenses and other current assets	2,960	2,266
Deferred income taxes	4,043	3,350
Total current assets	126,962	101,195
Property, plant and equipment, at cost	149,786	144,928
Less accumulated depreciation	(81,284	) (78,826
Net property, plant and equipment	68,502	66,102
Intangible assets, at cost less accumulated amortization	59,845	33,680
Other assets	5,691	6,259
Deferred income taxes	—	2,309
Goodwill	35,670	9,365
Total assets	\$296,670	\$218,910
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	\$71,181	\$1,790
Payables	20,966	11,365
Accrued compensation and employee benefits	9,196	6,734
Warranty and after-sale costs	913	1,593
Income and other taxes	2,015	931
Total current liabilities	104,271	22,413
Other long-term liabilities	1,021	1,078
Deferred income taxes	10,258	—
Accrued non-pension postretirement benefits	6,068	6,103
Other accrued employee benefits	7,968	10,035
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock	20,430	21,292
Capital in excess of par value	40,852	39,445
Reinvested earnings	152,627	166,271
Accumulated other comprehensive loss	(14,096	) (14,566

Explanation of Responses:

Edgar Filing: CIM Commercial Trust Corp - Form 4

Less: Employee benefit stock	(1,262	) (1,485	)
Treasury stock, at cost	(31,467	) (31,676	)
Total shareholders' equity	167,084	179,281	
Total liabilities and shareholders' equity	\$296,670	\$218,910	

See accompanying notes to consolidated condensed financial statements.

4

---

Table of Contents

## BADGER METER, INC.

## Consolidated Condensed Statements of Operations

	Three Months Ended		Nine Months Ended	
	September 30, (Unaudited)		September 30, (Unaudited)	
	(In thousands except share and per share amounts)			
	2012	2011	2012	2011
Net sales	\$87,130	\$69,698	\$245,337	\$202,205
Cost of sales	52,800	46,918	151,942	131,768
Gross margin	34,330	22,780	93,395	70,437
Selling, engineering and administration	20,219	14,791	57,741	44,933
Operating earnings	14,111	7,989	35,654	25,504
Interest expense (income)	286	(87	) 729	121
Earnings before income taxes	13,825	8,076	34,925	25,383
Provision for income taxes	4,968	1,196	12,377	7,409
Net earnings	\$8,857	\$6,880	\$22,548	\$17,974
Per share amounts:				
Earnings per share:				
Basic	\$0.63	\$0.46	\$1.57	\$1.20
Diluted	\$0.62	\$0.46	\$1.56	\$1.19
Dividends declared – Common stock	\$0.17	\$0.16	\$0.49	\$0.44
Shares used in computation of earnings per share:				
Basic	14,128,055	14,989,366	14,393,644	14,959,202
Impact of dilutive securities	57,851	69,109	65,140	84,339
Diluted	14,185,906	15,058,475	14,458,784	15,043,541
See accompanying notes to consolidated condensed financial statements.				

Table of Contents

## BADGER METER, INC.

## Consolidated Condensed Statements of Comprehensive Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	(Unaudited)		(Unaudited)	
	(In thousands)			
	2012	2011	2012	2011
Net earnings	\$8,857	\$6,880	\$22,548	\$17,974
Other comprehensive income:				
Foreign currency translation adjustment	272	(698	) 48	349
Employee benefit funded status adjustment, net of tax	143	351	422	1,061
Comprehensive income	\$9,272	\$6,533	\$23,018	\$19,384
See accompanying notes to consolidated condensed financial statements.				



Table of Contents

## BADGER METER, INC.

## Consolidated Condensed Statements of Cash Flows

	Nine Months Ended September 30 (Unaudited) (In thousands)	
	2012	2011
Operating activities:		
Net earnings	\$22,548	\$17,974
Adjustments to reconcile net earnings to net cash provided by (used for) operations:		
Depreciation	5,772	5,458
Amortization	3,331	1,759
Deferred income taxes	73	(66)
Noncurrent employee benefits	595	1,476
Contribution to pension plan	(1,097)	—
Stock-based compensation expense	921	836
Changes in:		
Receivables	(7,414)	(2,636)
Inventories	(4,042)	1,667
Prepaid expenses and other current assets	473	(1,337)
Liabilities other than debt	2,859	1,330
Total adjustments	1,471	8,487
Net cash provided by operations	24,019	26,461
Investing activities:		
Property, plant and equipment expenditures	(4,524)	(3,696)
Acquisitions, net of cash acquired and future payments	(51,517)	(3,954)
Net cash used for investing activities	(56,041)	(7,650)
Financing activities:		
Net increase (decrease) in short-term debt	69,654	(10,543)
Dividends paid	(7,107)	(6,615)
Proceeds from exercise of stock options	291	251
Tax benefit on stock options	223	166
Repurchase of Common stock	(30,000)	—
Issuance of treasury stock	430	468
Net cash provided by (used for) financing activities	33,491	(16,273)
Effect of foreign exchange rates on cash	(388)	160
Increase in cash	1,081	2,698
Cash – beginning of period	4,975	3,089
Cash – end of period	\$6,056	\$5,787
See accompanying notes to consolidated condensed financial statements.		

Table of Contents

## BADGER METER, INC.

## Notes to Unaudited Consolidated Condensed Financial Statements

## Note 1 Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated condensed financial statements of Badger Meter, Inc. (the “Company”) contain all adjustments (consisting only of normal recurring accruals except as otherwise discussed) necessary to present fairly the Company’s consolidated condensed financial position at September 30, 2012, results of operations for the three- and nine-month periods ended September 30, 2012 and 2011, comprehensive income for the three- and nine-month periods ended September 30, 2012 and 2011, and cash flows for the nine-month periods ended September 30, 2012 and 2011. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with United States 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.

## Note 2 Additional Financial Information Disclosures

The consolidated condensed balance sheet at December 31, 2011 was derived from amounts included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. Refer to the footnotes to the financial statements included in that report for a description of the Company’s accounting policies and for additional details of the Company’s financial condition. The details in those notes have not changed except as discussed below and as a result of normal adjustments in the interim.

## 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 problems caused by water quality issues. Changes in the Company’s warranty and after-sale costs reserve for the three- and nine-month periods ended September 30, 2012 and 2011 were as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Balance at beginning of period	\$1,152	\$932	\$1,593	\$889
Net additions charged to earnings	86	272	431	748
Costs incurred	(325	) (200	) (1,111	) (633
Balance at end of period	\$913	\$1,004	\$913	\$1,004

## Note 3 Employee Benefit Plans

The Company maintains a non-contributory defined benefit pension plan (sometimes referred to as the “qualified pension plan”) for certain employees who were employed at December 31, 2011. 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 Badger Meter Employee Savings and Stock Ownership Plan (“ESSOP”) 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 defined contribution feature within the ESSOP. After December 31, 2011, employees will not receive any new benefits under the qualified pension plan as benefits have been frozen and the employees now participate in the defined contribution feature of the ESSOP instead. Employees will continue to earn returns on their frozen balances under the qualified pension plan. The Company also maintains a non-contributory postretirement plan that provides medical benefits for certain of its retirees and eligible dependents in the United States.

Edgar Filing: CIM Commercial Trust Corp - Form 4

The following table sets forth the components of net periodic benefit cost for the three months ended September 30, 2012 and 2011 based on December 31, 2011 and 2010 actuarial measurement dates, respectively:

8

---

Table of Contents

(In thousands)	Defined pension plan benefits		Other postretirement benefits	
	2012	2011	2012	2011
Service cost – benefits earned during the year	\$12	\$107	\$36	\$37
Interest cost on projected benefit obligations	564	605	74	81
Expected return on plan assets	(797	) (936	) —	—
Amortization of prior service cost	—	49	40	40
Amortization of net loss	184	448	—	—
Net periodic benefit cost (income)	\$(37	) \$273	\$150	\$158

The following table sets forth the components of net periodic benefit cost for the nine months ended September 30, 2012 and 2011 based on December 31, 2011 and 2010 actuarial measurement dates, respectively:

(In thousands)	Defined pension plan benefits		Other postretirement benefits	
	2012	2011	2012	2011
Service cost – benefits earned during the year	\$36	\$393	\$107	\$111
Interest cost on projected benefit obligations	1,691	1,859	221	243
Expected return on plan assets	(2,392	) (2,825	) —	—
Amortization of prior service cost	—	147	121	120
Amortization of net loss	553	1,346	—	—
Net periodic benefit cost (income)	\$(112	) \$920	\$449	\$474

The Company disclosed in its financial statements for the year ended December 31, 2011 that it estimated it would make a contribution in 2012 of \$1.9 million due to the reduction in the market value of the underlying investments as of the December 31, 2011 actuarial measurement date. As a result of recent law changes, the Company has funded \$1.1 million as of September 30, 2012 related to the 2011 pension plan year. The Company believes no additional contributions will be required during 2012.

The Company also disclosed in its financial statements for the year ended December 31, 2011 that it estimated it would pay \$0.5 million in other postretirement benefits in 2012 based on actuarial estimates. As of September 30, 2012, \$0.4 million of such benefits have been paid. The Company continues to believe that its estimated payments for the full year are reasonable. However, such estimates contain inherent uncertainties because cash payments can vary significantly depending on the timing of postretirement medical claims and the collection of the retirees' portion of certain costs. Note that the amount of benefits paid in calendar year 2012 will not impact the expense for postretirement benefits for 2012.

## Note 4 Accumulated Comprehensive Income (Loss)

Components of accumulated other comprehensive loss are as follows:

(In thousands)	September 30, 2012	December 31, 2011
Cumulative foreign currency translation adjustment	\$1,238	\$1,191
Unrecognized pension and postretirement benefit plan liabilities, net of tax	(15,334	) (15,757
Accumulated other comprehensive loss	\$(14,096	) \$(14,566

## Note 5 Acquisitions

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.

located in Thetford, England for approximately \$57.3 million in cash, plus an estimated working capital adjustment of \$0.3 million. \$4.6 million of the purchase price is due on July 31, 2013 and is included in payables on the consolidated balance sheet. 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.

9

---

Table of Contents

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.

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 will be permanently reduced by \$16.7 million annually. 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 a \$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. This facility is unsecured, but there are a number of financial covenants in effect for the period with which the Company is in compliance.

The Company has not finalized the allocation of the purchase price as of September 30, 2012 because it has not completed its analysis of the fair value of inventories, property, plant and equipment, intangible assets, income tax liabilities and certain contingent liabilities. The following table summarizes the preliminary estimates of fair value of the assets acquired and the liabilities assumed as of the acquisition date:

(In thousands)	January 31, 2012
Assets Acquired:	
Cash	\$ 1,529
Receivables	5,002
Inventories	7,602
Prepaid expenses and other current assets	172
Current deferred income taxes	466
Property, plant and equipment	3,774
Intangible assets	29,500
Goodwill	26,305
Total assets acquired	\$74,350
Liabilities Assumed:	
Payables	\$3,430
Accrued compensation and employee benefits	569
Income taxes	31
Long-term deferred income taxes	12,273
Other long-term liabilities	451
Total liabilities assumed	\$16,754

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

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

(In thousands except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	\$87,130	\$80,617	\$249,193	\$234,574
Net earnings	\$8,857	\$7,281	\$22,987	\$19,765
Diluted earnings per share	\$0.62	\$0.48	\$1.59	\$1.31

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.



## Table of Contents

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 (“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. The Company’s purchase price allocation included \$0.9 million of cash, plus approximately \$0.4 million of receivables, \$0.4 million of inventory, \$2.0 million of property, plant and equipment, \$1.8 million of intangibles, \$0.2 million of goodwill, and \$0.1 million of net other assets and liabilities.

The Remag 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. The acquisition did not have a material impact on the Company’s consolidated financial statements or the notes thereto.

### Note 6 Contingencies, Litigation and Commitments

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 2011 and the first three quarters of 2012 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.

The Company has been named as a defendant in one pending patent infringement lawsuit. The lawsuit alleges the Company and other parties infringed a patent on a metering data feature. As part of its sales contracts, the Company indemnifies customers for intellectual property infringement claims on its products and pays for certain costs, damages and fees if applicable conditions are met. The complaint seeks unspecified damages as well as injunctive relief. The Company believes this claim is without merit and it is vigorously defending its interests. Although it is not possible to predict the ultimate outcome of this matter, the Company does not believe the ultimate resolution of this issue 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.



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, a loss or disruption of certain suppliers could temporarily disrupt the Company's operations in the short term. The Company attempts to mitigate this risk 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 Income Taxes

The provision for income taxes as a percentage of earnings before income taxes for the third quarter of 2012 was 35.9% compared to 14.8% in the third quarter of 2011. The provision for income taxes as a percentage of earnings before income taxes for the nine-month period ended September 30, 2012 was 35.4% compared to 29.2% in the same period of 2011.

## Table of Contents

The nine-month period of 2012 results include the recognition of favorable state income tax audit outcomes for prior periods. The third quarter and nine-month period of 2011 results included recognition of previously unrecognized tax benefits for certain deductions that were taken on prior tax returns. These benefits totaled \$1.5 million and were recognized in earnings in the third quarter of 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 would have been 33.1% and 35% for the three- and nine-month periods ended September 30, 2011.

### Note 8 Fair Value Measurements of Financial Instruments

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

### Note 9 Subsequent Events

The Company evaluated subsequent events in order to identify conditions that existed at the date of the balance sheet as well as conditions that arose after the balance sheet date but before the financial statements were 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, disclosures are made regarding the nature and estimated financial effects of such 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.

## Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

### Business Description and Overview

The core competency of the Company is flow measurement solutions. The Company is a leading innovator, manufacturer and marketer of flow measurement and control products, serving water and gas utilities, municipalities and industrial customers worldwide. Measuring a wide variety of liquids ranging from water and oil to lubricants in industrial processes, the Company's products are known for their high degree of accuracy, long-lasting durability and ability to provide valuable and timely measurement information to customers. The Company's product lines fall into three categories: sales of 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 valves, concrete vibrators and gas meter radios to unique markets (specialty products). While the discussion of sales focuses on these three categories due to the different markets served, 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 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 the 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 for other water-based purposes, including irrigation, water reclamation and industrial process applications as well as meters and related technologies and services for measuring a wide variety of fluids in industries such as food and beverage, pharmaceutical production, petroleum, heating, ventilating and air conditioning (HVAC), and measuring and dispensing automotive fluids.

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

For municipal water, 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 the water meter and a register that gives a visual display of the meter reading. Meters equipped with radio transmitters use encoder registers to convert the measurement data from the meter into a digital format which is then transmitted via radio frequency to a receiver that collects and formats the data appropriately for a water utility's billing system. Mobile systems, referred to as automatic meter reading (AMR) systems,

## Table of Contents

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 the utility's 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 will be 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 the new ORION® SE two-way fixed network technology, which is complemented by a family of highly accurate and reliable water meters. The ORION SE system can operate as a mobile AMR system, a fixed network AMI system, or both. For example, a water or gas utility can begin deployment in mobile mode and migrate to a fixed network system. Also, if the system is operating in fixed network mode and the collector network goes down, the system will automatically revert to mobile mode, allowing the utility to continue collecting readings. Once the collector network is back up, it will automatically revert back to its fixed network mode. By using AMA, utilities will be able to proactively manage their day-to-day operations through powerful analytics-based software and two-way fixed network meter reading.

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 AMR, AMI or AMA technology. In addition to selling its proprietary AMR/AMI/AMA products, including the ORION AMR/AMI/AMA technologies and the GALAXY® AMI/AMA system, the Company also remarkets the Itron® AMR/AMI product under a license and distribution agreement with Itron. The Company's proprietary AMR/AMI/AMA products generally result in higher margins than the remarketed, non-proprietary technology products. The Company also sells registers and radios separately to customers who wish to upgrade their existing meters in the field.

The proprietary ORION receiver technology has been licensed to other technology providers, including those providing AMR/AMI products that communicate over power lines, broadband networks, and proprietary radio frequency networks, allowing ORION a distinct connectivity advantage in the AMR/AMI 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 AMR/AMI/AMA 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 AMR/AMI technology. This conversion rate is accelerating and contributes to an increased water meter and AMR/AMI base of business. The Company estimates that less than 30 percent of water meters installed in the United States have been converted to AMR or AMI 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 niche flow measurement and control applications across a broad industrial spectrum. Specialized communication protocols that control the entire flow measurement process drive these markets. 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.

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 specific intervals.

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.

## Table of Contents

There are approximately 53,000 water utilities in the United States and the Company estimates that less than 30 percent of them have converted to an AMR or AMI 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 AMA, the Company believes it is well-positioned to meet customers' future needs.

### Acquisitions

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. located in Thetford, England for approximately \$57.3 million in cash, plus an estimated working capital adjustment of \$0.3 million. 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 5 "Acquisitions" in the accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

On January 26, 2011, the Company purchased Remag, AG 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 5 "Acquisitions" in the accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

### Revenue and Product Mix

Prior to the Company's introduction of its own proprietary AMR products (ORION), Itron water utility-related products were a dominant AMR 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 ORION products directly compete with Itron water AMR products. In recent years, many of the Company's customers have selected ORION products over Itron products. While ORION sales are generally greater than those of the Itron licensed products, the Company expects that the Itron products will remain a significant component of sales to water utilities. Continuing sales in both product lines underscores the continued acceptance of AMR 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, 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. 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.

### Explanation of Responses:

Results of Operations - Three Months Ended September 30, 2012

The Company's net sales for the three months ended September 30, 2012 increased \$17.4 million, or 25.0%, to \$87.1 million compared to \$69.7 million during the same period in 2011. The increase was due to the inclusion of Racine Federated's sales in the third quarter of 2012 as a result of the acquisition on January 31, 2012, and higher municipal sales offset somewhat by lower sales of radios to natural gas utilities. Racine Federated's sales for the three months ended September 30, 2012 were \$11.8 million.

Municipal water sales increased \$5.7 million, or 10.8%, from \$53.0 million in the third quarter of 2011 to \$58.7 million in the third quarter of 2012. These sales represented 67.4% of sales for the three months ended September 30, 2012. The increase was due to higher sales of residential meters sold with technology as well as higher commercial meter sales. Sales of the meters with technology increased 11.1% on higher volumes. Manually read residential meter sales decreased slightly due to lower volumes sold. Commercial meter sales increased 10.8% in this period over the same period in 2011 due to higher

Table of Contents

volumes of products sold. The Company believes the net overall sales increase in municipal water sales was due to normal buying patterns resuming after a period where there were (and still are) factors affecting market conditions, including continuing municipal spending concerns that have been delaying ordering decisions, slower housing starts and the Company's introduction in early 2011 of the next generation of the ORION product that is causing water utilities to take time to evaluate this new technology.

Industrial flow products represented 23.5% of sales for the three months ended September 30, 2012. These sales increased \$10.1 million, or 97.1%, to \$20.5 million from \$10.4 million in the same period last year. As noted above, Racine Federated was acquired on January 31, 2012 and their sales were included from that point forward. Within this product grouping, Racine Federated's sales were \$9.2 million. The remainder of the increase was due to higher sales in most of the remaining industrial flow product lines.

Specialty application products represented 9.1% of sales for the three months ended September 30, 2012. These sales increased \$1.6 million in the third quarter of 2012, or 25.4%, to \$7.9 million from \$6.3 million during the same period in 2011. Included in this product grouping was \$2.6 million of sales from Racine Federated. Without these sales, the specialty products would have shown a sales decrease due to lower sales of radios into the natural gas market. The third quarter of 2011 included higher sales of radios to one particular natural gas customer that did not recur this quarter.

The gross margin as a percentage of sales was 39.4% in the third quarter of 2012 compared to 32.7% in the third quarter of 2011. The net increase 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 volumes in general which increase overall factory utilization. Offsetting these margin increases were lower sales of radios to natural gas utilities.

Selling, engineering and administration expenses for the three months ended September 30, 2012 increased \$5.4 million, or 36.7%, over the same period 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 the third quarter of 2011. The remainder of the increase was due to higher employee incentives, and normal inflationary increases, offset by continuing cost control measures. In addition, the third quarter of 2012 included a \$1.0 million charge in connection with the write down of the Company's investment in an emerging technology company.

Operating earnings for the third quarter of 2012 increased \$6.1 million, or 76.6%, to \$14.1 million compared to \$8.0 million in 2011, as a net result of the higher sales of municipal and industrial 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 for the quarter ended September 30, 2012 increased to \$0.3 million from a credit balance of \$0.1 million in the same period last year, which included interest expense reversed for amounts previously accrued for certain tax issues. The interest expense in the third quarter of this year is due to increased borrowings associated with the acquisition of Racine Federated and funds borrowed for the Company's stock repurchase program.

The provision for income taxes as a percentage of earnings before income taxes for the third quarter of 2012 was 35.9% compared to 14.8% in the third quarter of 2011, which included recognition of \$1.5 million of previously unrecognized tax benefits for certain tax deductions taken on previous tax returns. Without those benefits, the provision for income taxes as a percentage of earnings before income taxes would have been 33.1% in the third quarter of 2011.



As a result of the above mentioned items, net earnings for the three months ended September 30, 2012 were nearly \$8.9 million, or \$0.62 per diluted share, compared to \$6.9 million, or \$0.46 per diluted share, for the same period in 2011. The per share amounts were also affected by the effects of the Company's stock repurchase program, which was completed in the second quarter of 2012.

Results of Operations - Nine Months Ended September 30, 2012

The Company's net sales for the nine months ended September 30, 2012 increased \$43.1 million, or 21.3%, to \$245.3 million compared to \$202.2 million during the same period in 2011. The increase was due in part to the inclusion of Racine Federated's sales in the 2012 amounts as a result of the acquisition on January 31, 2012. Racine Federated's sales for the eight months since acquisition were \$31.2 million. The remainder of the increase was due to higher municipal water product sales, offset by lower sales of specialty products due to fewer radios sold to natural gas utilities.

Table of Contents

Municipal water sales increased \$17.6 million, or 12.0%, from \$146.4 million in the first nine months of 2011 to \$164.0 million in the first nine months of 2012. These sales represented 66.9% of sales for the nine months ended September 30, 2012. The increase was due principally to higher sales of residential meters sold with technology and higher commercial meter sales. Sales of the meters with technology increased 11.6% on higher volumes. Commercial meter sales increased 26.2% in this period over the same period in 2011 due to higher volumes of products sold. The Company believes the net overall sales increase in municipal water sales was due to normal buying patterns resuming after a period where there were (and still are) factors affecting market conditions, including continuing municipal spending concerns that have been delaying ordering decisions, slower housing starts and the Company's introduction in early 2011 of the next generation of the ORION product that is causing water utilities to take time to evaluate this new technology.

Industrial flow products represented 24.4% of sales for the nine months ended September 30, 2012. These sales increased \$27.6 million, or 85.7%, to \$59.8 million from \$32.2 million in the same period last year. As noted above, Racine Federated was acquired on January 31, 2012 and their sales were included from that point forward. Within this product grouping, Racine Federated's sales were \$24.4 million. The remainder of the increase was due to higher sales in nearly all industrial flow product lines.

Specialty application products represented 8.7% of sales for the nine months ended September 30, 2012. These sales decreased \$2.1 million in the nine month period ended September 30, 2012, or 8.9%, to \$21.5 million from \$23.6 million during the same period in 2011. Included in this product grouping was \$6.8 million of sales from Racine Federated, which mitigated the overall decline in this group. The decrease in sales was due to a 68.6% decline in the sales of radios into the natural gas market. The first nine months of 2011 included significant sales of radios to one particular natural gas customer that did not recur in the similar period in 2012.

The gross margin as a percentage of sales was 38.1% for the first nine months of 2012 compared to 34.8% in the same period in 2011. The net increase 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 costs fluctuate with the metals market, as well as the higher volumes of products sold. Offsetting these margin increases were lower sales of radios to natural gas utilities.

Selling, engineering and administration expenses for the nine months ended September 30, 2012 increased \$12.8 million, or 28.5%, over the same period 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 the first nine months of 2011. The remainder of the increase was due to higher employee incentives and normal inflationary increases, offset by continuing cost control measures.

Operating earnings for the first nine months of 2012 increased \$10.2 million, or 39.8%, to \$35.7 million compared to \$25.5 million in 2011, due to the higher municipal sales, the addition of Racine Federated and slightly lower product costs.

Interest expense for the first nine months of 2012 increased to \$0.7 million from \$0.1 million in the same period last year as a result of increased debt associated with the acquisition of Racine Federated and funds borrowed for the Company's stock repurchase program. The 2011 amounts included interest expense reversed for amounts previously accrued for certain tax issues.

The provision for income taxes as a percentage of earnings before income taxes for the first nine months of 2012 was 35.4% compared to 29.2% in the same period in 2011. The 2011 results included recognition of \$1.5 million of previously unrecognized tax benefits for certain tax deductions taken on previous tax returns. Without those benefits, the provision for income taxes as a percentage of earnings before income taxes would have been 35.0% for the first

nine months of 2011.

As a result of the above mentioned items, net earnings for the nine month period ended September 30, 2012 were \$22.5 million, or \$1.56 per diluted share, compared to \$18.0 million, or \$1.19 per diluted share, for the same period in 2011. The per share amounts were also affected by the effects of the Company's stock repurchase program, which was completed in the second quarter of 2012.

#### Liquidity and Capital Resources

The main sources of liquidity for the Company are cash from operations and borrowing capacity. Cash provided by operations was \$24.0 million for the first nine months of 2012 compared to \$26.5 million in the same period in 2011. The cash impact of higher earnings for the first nine months of 2012 and increased payables was more than offset by increased receivables and inventories.

16

---

Table of Contents

The receivables balance increased from \$41.2 million at December 31, 2011 to \$53.7 million at September 30, 2012 due principally to the acquisition of Racine Federated's receivables as well as higher overall sales. Generally, sales are lower in the fourth quarter resulting in lower receivable balances at year end. The Company believes its net receivables balance is fully collectible.

Inventories at September 30, 2012 increased \$10.8 million to \$60.2 million from \$49.4 million at December 31, 2011. Much of the increase was due to the acquisition of Racine Federated with the remainder due to the timing of purchases.

Prepaid expenses and other current assets at September 30, 2012 increased to \$3.0 million from \$2.3 million at December 31, 2011 due primarily to the payment of certain calendar year insurance premiums that are expensed ratably over the policy terms.

Net property, plant and equipment at September 30, 2012 increased to \$68.5 million from \$66.1 million at December 31, 2011 due to the purchase of Racine Federated and normal capital expenditures, partially offset by depreciation expense.

The increase in intangible assets to \$59.8 million at September 30, 2012 from \$33.7 million at December 31, 2011 was due to the acquisition of Racine Federated, offset slightly by normal amortization. The acquisition also resulted in an increase in goodwill from \$9.4 million at December 31, 2011 to \$35.7 million at September 30, 2012. The September 30, 2012 intangibles and goodwill amounts are based on preliminary valuations for Racine Federated and are subject to revision.

Short-term debt increased from \$1.8 million at December 31, 2011 to \$71.2 million at September 30, 2012. The increase was due to funds borrowed for the purchase of Racine Federated and the repurchase of stock by the Company under a program approved by its Board of Directors in November 2011 to repurchase up to \$30.0 million of the Company's Common stock, which was completed in the second quarter of 2012.

Payables increased to \$21.0 million at September 30, 2012 from \$11.4 million at December 31, 2011 due primarily to the timing of payments and the acquisition of Racine Federated. In addition, this account now includes \$4.6 million owed to the sellers of Racine Federated that is to be paid July 31, 2013.

Accrued compensation and employee benefits increased to \$9.2 million at September 30, 2012 from \$6.7 million at December 31, 2011 as a result of the Racine Federated acquisition, as well as higher accrued employee incentive costs due to improved results.

Accrued income and other taxes increased to \$2.0 million at September 30, 2012 from \$0.9 million at December 31, 2011 due to current year accruals for taxes and the timing of income tax payments.

At September 30, 2012, the Company had long-term deferred income tax liabilities of \$10.3 million compared to a long-term deferred income tax asset of \$2.3 million at December 31, 2011. This net change was the result of recording certain deferred tax liabilities in connection with the purchase of Racine Federated.

Other accrued employee benefits decreased \$2.0 from \$10.0 million at December 31, 2011 to \$8.0 million at September 30, 2012. The decline was due in part to the Company making a \$1.1 million contribution into the pension plan.

The overall reduction in total shareholders' equity from \$179.3 million at December 31, 2011 to \$167.1 million at September 30, 2012 was the net effect of net earnings and stock options exercised, offset by dividends paid and \$30.0 million of Common stock repurchased and retired by the Company under the current stock repurchase program.

The Company's financial condition remains strong. In May 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) with its primary lender for a three year period. The line will be permanently reduced by \$16.7 million annually. This facility is unsecured, but 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 \$62.8 million of unused credit lines available at September 30, 2012.

Other Matters

Table of Contents

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 2011 and the first three quarters of 2012 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.

The Company has been named as a defendant in one pending patent infringement lawsuit. The lawsuit alleges the Company and other parties infringed a patent on a metering data feature. As part of its sales contracts, the Company indemnifies customers for intellectual property infringement claims on its products and pays for certain costs, damages and fees if applicable conditions are met. The complaint seeks unspecified damages as well as injunctive relief. The Company believes this claim is without merit and it is vigorously defending its interests. Although it is not possible to predict the ultimate outcome of this matter, the Company does not believe the ultimate resolution of this issue 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.

See the "Special Note Regarding Forward Looking Statements" at the front of this Quarterly Report on Form 10-Q and Part I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of risks and uncertainties that could impact the Company's financial performance and results of operations.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company's off-balance sheet arrangements and contractual obligations are discussed in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Off-Balance Sheet Arrangements" and "Contractual Obligations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and have not materially changed since that report was filed unless otherwise indicated in this Form 10-Q.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

The Company's quantitative and qualitative disclosures about market risk are included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Market Risks" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and have not materially changed since that report was filed.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management evaluated, with the participation of the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President - Finance, Chief Financial Officer and Treasurer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the

18

---

Table of Contents

quarter ended September 30, 2012. Based upon their evaluation of these disclosure controls and procedures, the Company's Chairman, President and Chief Executive Officer and the Company's Senior Vice President - Finance, Chief Financial Officer and Treasurer concluded that as of the date of such evaluation, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

Part II – Other Information

Item 6 Exhibits

Exhibit No. Description

31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, (v) Notes to Unaudited Consolidated Condensed Financial Statements, tagged as blocks of text and (vi) document and entity information.
20	

---

Table of Contents

SIGNATURES

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

BADGER METER, INC.

Dated: October 30, 2012

By /s/ Richard A. Meeusen  
Richard A. Meeusen  
Chairman, President and Chief Executive Officer

By /s/ Richard E. Johnson  
Richard E. Johnson  
Senior Vice President – Finance, Chief Financial  
Officer and Treasurer

By /s/ Beverly L. P. Smiley  
Beverly L. P. Smiley  
Vice President – Controller

Table of Contents

BADGER METER, INC.

Quarterly Report on Form 10-Q for the Period Ended September 30, 2012

Exhibit Index

Exhibit No.	Description
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows, (v) Notes to Unaudited Consolidated Condensed Financial Statements, tagged as blocks of text and (vi) document and entity information.
22	