

BADGER METER INC  
Form 10-Q  
April 24, 2018  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended March 31, 2018  
Commission File Number 001-06706

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BADGER METER, INC.

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4545 W. Brown Deer Road  
Milwaukee, Wisconsin 53223  
(Address of principal executive offices)

(414) 355-0400  
(Registrant's telephone number, including area code)

A Wisconsin Corporation  
IRS Employer Identification No. 39-0143280

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 10, 2018, there were 29,113,932 shares of Common stock outstanding with a par value of \$1 per share.



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Special Note Regarding Forward Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, as well as other information provided from time to time by Badger Meter, Inc. (the “Company”) or its employees, may contain forward looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward looking statements. The words “anticipate,” “believe,” “estimate,” “expect,” “think,” “should,” “could” 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, 2017 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, international or civil conflicts that affect international trade, 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, weather patterns or other natural phenomena, including related economic and other ancillary effects of any such events;
- economic policy changes, including but not limited to, trade policy and corporate taxation;
- the timing and impact of government funding programs that 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 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 inability to develop technologically advanced products;
- the failure of the Company’s products to operate as intended;
- the inability to protect the Company’s proprietary rights to its products;
- the Company’s expanded role as a prime contractor for providing complete technology 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;
- disruptions and other damages to information technology and other networks and operations due to breaches in data security or any other cybersecurity attack;
- transportation delays or interruptions;
- violations or alleged violations of the U.S. Foreign Corrupt Practices Act (FCPA) or other anti-corruption laws and the Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act (referred to as

FATCA);

the loss of or disruption in certain single-source suppliers; and  
changes in laws and regulations, particularly laws dealing with the content or handling of materials used in the Company's 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.

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## Part I – Financial Information

## Item 1 Financial Statements

## BADGER METER, INC.

## Consolidated Condensed Balance Sheets

	March 31, December 31, (Unaudited) (In thousands)	
	2018	2017
Assets		
Current assets:		
Cash	\$ 13,532	\$ 11,164
Receivables	63,372	58,210
Inventories:		
Finished goods	22,668	23,125
Work in process	19,012	22,035
Raw materials	43,448	40,012
Total inventories	85,128	85,172
Prepaid expenses and other current assets	4,728	4,077
Total current assets	166,760	158,623
Property, plant and equipment, at cost	215,512	212,485
Less accumulated depreciation	(121,979 )	(118,884 )
Net property, plant and equipment	93,533	93,601
Intangible assets, at cost less accumulated amortization	57,468	59,326
Other assets	9,226	9,897
Deferred income taxes	855	2,856
Goodwill	67,424	67,424
Total assets	\$ 395,266	\$ 391,727
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	\$ 48,170	\$ 44,550
Payables and other current liabilities	24,300	28,601
Accrued compensation and employee benefits	9,375	15,509
Warranty and after-sale costs	3,702	3,367
Income and other taxes	3,003	1,082
Total current liabilities	88,550	93,109
Other long-term liabilities	11,324	4,073
Deferred income taxes	1,546	3,434
Accrued non-pension postretirement benefits	5,834	5,703
Other accrued employee benefits	7,290	7,956
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock	37,177	37,165
Capital in excess of par value	32,870	32,182
Reinvested earnings	247,866	244,224
Accumulated other comprehensive loss	(10,411 )	(10,893 )
Less: Employee benefit stock	(461 )	(460 )

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Treasury stock, at cost	(26,319 )	(24,766 )
Total shareholders' equity	280,722	277,452
Total liabilities and shareholders' equity	\$395,266	\$ 391,727

See accompanying notes to unaudited consolidated condensed financial statements.

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BADGER METER, INC.

Consolidated Statements of Operations

	Three Months Ended March 31, (Unaudited) (In thousands except share and per share amounts)	
	2018	2017
Net sales	\$105,041	\$101,606
Cost of sales	68,293	62,956
Gross margin	36,748	38,650
Selling, engineering and administration	26,774	25,085
Operating earnings	9,974	