

BADGER METER INC
Form 10-Q
April 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
for the quarterly period ended March 31, 2012

BADGER METER, INC.

4545 W. Brown Deer Road

Milwaukee, Wisconsin 53223

(414) 355-0400

A Wisconsin Corporation

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IRS Employer Identification No. 39-0143280

Commission File No. 001-06706

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

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

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

As of April 12, 2012, there were 14,511,988 shares of Common Stock outstanding with a par value of \$1 per share.

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Quarterly Report on Form 10-Q for the Period Ended March 31, 2012

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Special Note Regarding Forward Looking Statements

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

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

the loss 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**

	March 31, 2012 (Unaudited)	December 31, 2011
	(In thousands)	
Assets		
Current assets:		
Cash	\$ 6,661	\$ 4,975
Receivables	51,053	41,168
Inventories:		
Finished goods	12,718	13,476
Work in process	13,169	11,377
Raw materials	32,029	24,583
Total inventories	57,916	49,436
Prepaid expenses and other current assets	3,694	2,266
Deferred income taxes	4,081	3,350
Total current assets	123,405	101,195
Property, plant and equipment, at cost	150,759	144,928
Less accumulated depreciation	(80,750)	(78,826)
Net property, plant and equipment	70,009	66,102
Intangible assets, at cost less accumulated amortization	62,825	33,680
Other assets	6,087	6,259
Deferred income taxes		2,309
Goodwill	34,612	9,365
Total assets	\$ 296,938	\$ 218,910
Liabilities and shareholders equity		
Current liabilities:		
Short-term debt	\$ 63,989	\$ 1,790
Payables	18,166	11,365
Accrued compensation and employee benefits	8,047	6,734
Warranty and after-sale costs	1,406	1,593
Income and other taxes	4,465	931
Total current liabilities	96,073	22,413
Other long-term liabilities	6,670	1,078
Deferred income taxes	10,447	
Accrued non-pension postretirement benefits	6,117	6,103
Other accrued employee benefits	9,856	10,035
Commitments and contingencies (Note 6)		

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Shareholders' equity:		
Common stock	20,786	21,292
Capital in excess of par value	39,940	39,445
Reinvested earnings	153,644	166,271
Accumulated other comprehensive loss	(13,664)	(14,566)
Less: Employee benefit stock	(1,262)	(1,485)
Treasury stock, at cost	(31,669)	(31,676)
Total shareholders' equity	167,775	179,281
Total liabilities and shareholders' equity	\$ 296,938	\$ 218,910

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended March 31, (Unaudited) (In thousands except share and per share amounts)	
	2012	2011
Net sales	\$ 76,233	\$ 57,359
Cost of sales	47,369	36,922
Gross margin	28,864	20,437
Selling, engineering and administration	18,676	15,199
Operating earnings	10,188	5,238
Interest expense	205	112
Earnings before income taxes	9,983	5,126
Provision for income taxes	3,734	1,866
Net earnings	\$ 6,249	\$ 3,260
Per share amounts:		
Earnings per share:		
Basic	\$ 0.42	\$ 0.22
Diluted	\$ 0.42	\$ 0.22
Dividends declared Common stock	\$ 0.16	\$ 0.14
Shares used in computation of earnings per share:		
Basic	14,831,780	14,938,758
Impact of dilutive securities	65,837	119,474
Diluted	14,897,617	15,058,232

See accompanying notes to consolidated condensed financial statements.

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BADGER METER, INC.

Consolidated Condensed Statements of Comprehensive Income

	Three Months Ended March 31, (Unaudited) (In thousands)	
	2012	2011
Net earnings	\$ 6,249	\$ 3,260
Other comprehensive income:		
Foreign currency translation adjustment	550	573
Employee benefit funded status adjustment, net of tax	352	366
Comprehensive income	\$ 7,151	\$ 4,199

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended March 31, (Unaudited) (In thousands)	
	2012	2011
Operating activities:		
Net earnings	\$ 6,249	\$ 3,260
Adjustments to reconcile net earnings to net cash provided by (used for) operations:		
Depreciation	2,134	1,928
Amortization	921	556
Deferred income taxes	63	(9)
Noncurrent employee benefits	689	942
Stock-based compensation expense	284	281
Changes in:		
Receivables	(4,661)	2,904
Inventories	(1,662)	(3,663)
Prepaid expenses and other current assets	(245)	(1,616)
Liabilities other than debt	6,435	611
 Total adjustments	 3,958	 1,934
 Net cash provided by operations	 10,207	 5,194
 Investing activities:		
Property, plant and equipment expenditures	(1,294)	(1,616)
Acquisitions, net of cash acquired and future payments	(50,261)	(3,954)
 Net cash used for investing activities	 (51,555)	 (5,570)
 Financing activities:		
Net increase in short-term debt	62,393	858
Dividends paid	(2,389)	(2,101)
Proceeds from exercise of stock options	187	78
Tax benefit on stock options	103	61
Repurchase of Common stock	(17,013)	
Issuance of treasury stock	45	