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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended September 30, 2010

BADGER METER, INC.

**4545 W. Brown Deer Road
Milwaukee, Wisconsin 53223
(414) 355-0400**

**A Wisconsin Corporation
IRS Employer Identification No. 39-0143280
Commission File No. 001-06706**

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 ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of October 15, 2010, there were 15,034,736 shares of Common Stock outstanding with a par value of \$1 per share.

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Quarterly Report on Form 10-Q for the Period Ended September 30, 2010
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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 intended to identify forward looking statements. All such forward looking statements are based on the Company’s then current views and assumptions and involve risks and uncertainties that include, among other things:

- the continued shift in the Company’s business from lower cost, manually read meters toward more expensive, value-added automatic meter reading (AMR) systems and advanced metering infrastructure (AMI) systems;
- 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 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 products.

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

Part I — Financial Information

Item 1 Financial Statements

BADGER METER, INC. **Consolidated Condensed Balance Sheets**

September 30, 2010 (Unaudited)	December 31, 2009
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Assets		
Current assets:		
Cash	\$ 2,674	\$ 13,329
Receivables	53,415	35,809
Inventories:		
Finished goods	9,581	8,960
Work in process	13,261	10,372
Raw materials	18,429	13,152
Total inventories	41,271	32,484
Prepaid expenses and other current assets	2,619	2,488
Deferred income taxes	2,583	2,570
Total current assets	102,562	86,680
Property, plant and equipment, at cost	141,812	138,123
Less accumulated depreciation	(76,424)	(75,252)
Net property, plant and equipment	65,388	62,871
Intangible assets, at cost less accumulated amortization	34,712	23,603
Other assets	7,373	5,845
Deferred income taxes	2,180	5,059
Goodwill	9,000	6,958
Total assets	<u>\$ 221,215</u>	<u>\$ 191,016</u>
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	\$ 13,062	\$ 2,574
Current portion of long-term debt	—	5,429
Payables	14,219	10,773
Accrued compensation and employee benefits	7,420	6,071
Warranty and after-sale costs	1,058	907
Income and other taxes	7,534	507
Total current liabilities	43,293	26,261
Other long-term liabilities	2,355	2,338
Accrued non-pension postretirement benefits	6,044	5,949
Other accrued employee benefits	7,145	12,007
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock	21,241	21,210
Capital in excess of par value	36,467	35,221
Reinvested earnings	151,943	135,225
Accumulated other comprehensive loss	(13,848)	(14,585)
Less: Employee benefit stock	(1,536)	(585)
Treasury stock, at cost	(31,889)	(32,025)
Total shareholders' equity	162,378	144,461
Total liabilities and shareholders' equity	<u>\$ 221,215</u>	<u>\$ 191,016</u>

See accompanying notes to consolidated condensed financial statements.

BADGER METER, INC.
Consolidated Condensed Statements of Operations

	Three Months Ended September 30, (Unaudited) (In thousands except share and per share amounts)		Nine Months Ended September 30, (Unaudited)	
	2010	2009	2010	2009
Net sales	\$ 75,702	\$ 60,814	\$ 211,791	\$ 193,901
Cost of sales	<u>47,748</u>	<u>37,089</u>	<u>133,605</u>	<u>117,403</u>
Gross margin	27,954	23,725	78,186	76,498
Selling, engineering and administration	<u>14,518</u>	<u>13,057</u>	<u>43,022</u>	<u>41,705</u>
Operating earnings	13,436	10,668	35,164	34,793
Interest expense (income)	<u>95</u>	<u>(962)</u>	<u>275</u>	<u>(255)</u>
Earnings from continuing operations before income taxes	13,341	11,630	34,889	35,048
Provision for income taxes	<u>4,318</u>	<u>4,665</u>	<u>12,485</u>	<u>13,353</u>
Earnings from continuing operations	9,023	6,965	22,404	21,695
Earnings from discontinued operations net of income taxes	<u>—</u>	<u>7,390</u>	<u>—</u>	<u>7,390</u>
Net earnings	<u>\$ 9,023</u>	<u>\$ 14,355</u>	<u>\$ 22,404</u>	<u>\$ 29,085</u>
Per share amounts:				
Earnings per share:				
Basic from continuing operations	\$ 0.61	\$ 0.47	\$ 1.50	\$ 1.47
Basic from discontinued operations	<u>\$ —</u>	<u>\$ 0.50</u>	<u>\$ —</u>	<u>\$ 0.50</u>
Total basic	<u>\$ 0.61</u>	<u>\$ 0.97</u>	<u>\$ 1.50</u>	<u>\$ 1.97</u>
Diluted from continuing operations	\$ 0.60	\$ 0.47	\$ 1.49	\$ 1.45
Diluted from discontinued operations	<u>\$ —</u>	<u>\$ 0.49</u>	<u>\$ —</u>	<u>\$ 0.50</u>
Total diluted	<u>\$ 0.60</u>	<u>\$ 0.96</u>	<u>\$ 1.49</u>	<u>\$ 1.95</u>
Dividends declared — Common stock	\$ 0.14	\$ 0.12	\$ 0.38	\$ 0.34
Shares used in computation of earnings per share:				
Basic	14,910,497	14,830,871	14,897,901	14,774,985
Impact of dilutive securities	<u>96,068</u>	<u>130,633</u>	<u>101,285</u>	<u>159,964</u>
Diluted	<u>15,006,565</u>	<u>14,961,504</u>	<u>14,999,186</u>	<u>14,934,949</u>

See accompanying notes to consolidated condensed financial statements.

BADGER METER, INC.
Consolidated Condensed Statements of Cash Flows

	Nine Months Ended September 30, (Unaudited) (In thousands)	
	2010	2009
Operating activities:		
Net earnings	\$ 22,404	\$ 29,085
Adjustments to reconcile net earnings to net cash provided by (used for) operations:		
Depreciation	5,211	5,309
Amortization	1,213	1,070
Gain on legal settlement	(740)	—
Deferred income taxes	2,158	3,908
Previously unrecognized tax benefits, including interest	—	(8,599)
Noncurrent employee benefits	2,399	2,746
Contribution to pension plan	(4,700)	(10,100)
Stock-based compensation expense	918	811
Changes in:		
Receivables	(16,964)	208
Inventories	(7,858)	3,162
Prepaid expenses and other current assets	(128)	(744)
Liabilities other than debt	9,751	(2,269)
Total adjustments	(8,740)	(4,498)
Net cash provided by operations	<u>13,664</u>	<u>24,587</u>
Investing activities:		
Property, plant and equipment expenditures	(6,962)	(6,008)
Acquisition, net of cash acquired	(7,280)	—
Acquisition of intangible asset	(8,028)	—
Investment in emerging technology company	(1,500)	—
Other — net	(62)	(443)
Net cash used for investing activities	<u>(23,832)</u>	<u>(6,451)</u>
Financing activities:		
Net increase (decrease) in short-term debt	10,607	(3,346)
Repayments of long-term debt	(5,429)	(7,284)
Dividends paid	(5,684)	(5,039)
Proceeds from exercise of stock options	228	1,023
Tax benefit on stock options	135	989
Employee benefit stock purchase, net	(1,000)	—
Issuance of treasury stock	121	136
Net cash used for financing activities	<u>(1,022)</u>	<u>(13,521)</u>
Effect of foreign exchange rates on cash	<u>535</u>	<u>88</u>
Increase (decrease) in cash	(10,655)	4,703
Cash — beginning of period	<u>13,329</u>	<u>6,217</u>
Cash — end of period	<u>\$ 2,674</u>	<u>\$ 10,920</u>

See accompanying notes to consolidated condensed financial statements.

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, 2010, results of operations for the three- and nine-month periods ended September 30, 2010 and 2009, and cash flows for the nine-month periods ended September 30, 2010 and 2009. 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain reclassifications have been made to the 2009 consolidated condensed financial statements to conform to the 2010 presentation.

Note 2 Additional Balance Sheet Information

The consolidated condensed balance sheet at December 31, 2009 was derived from amounts included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. 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 nine-month periods ended September 30, 2010 and 2009 were as follows:

(In thousands)	Balance at beginning of year	Net additions charged to earnings	Costs incurred and adjustments	Balance at September 30
2010	\$ 907	\$ 671	\$ (520)	\$ 1,058
2009	\$ 1,327	\$ 512	\$ (671)	\$ 1,168

Recent Pronouncements

In March 2010, the Patient Protection and Affordable Care Act of the Health Care and Education Act of 2010 became law. The Company continues to evaluate the impact, if any, on its future operating results.

Note 3 Employee Benefit Plans

The Company maintains a non-contributory defined benefit pension plan for its domestic employees and a non-contributory postretirement plan that provides medical benefits for certain domestic retirees and eligible dependents. In the third quarter of 2010, the Company decided to freeze the pension plan for its non-union employees and form a new feature within the Badger Meter Employee Savings and Stock Ownership Plan ("ESSOP") effective for calendar year 2011 in which the employee will earn a similar amount. This action resulted in a freeze of future service credits for these employees, a small decrease in the current year's pension expense and an immaterial amount of curtailment income at September 30, 2010.

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The following table sets forth the components of net periodic benefit cost for the three months ended September 30, 2010 and 2009 based on December 31, 2009 and 2008 actuarial measurement dates, respectively:

(In thousands)	Pension benefits		Other postretirement benefits	
	2010	2009	2010	2009
Service cost — benefits earned during the year	\$ 447	\$ 450	\$ 32	\$ 32
Interest cost on projected benefit obligations	496	748	81	102
Expected return on plan assets	(864)	(846)	—	—
Amortization of prior service cost (credit)	50	(16)	42	48
Amortization of net loss	437	262	—	—
Net periodic benefit cost	\$ 566	\$ 598	\$ 155	\$ 182

The following table sets forth the components of net periodic benefit cost for the nine months ended September 30, 2010 and 2009 based on December 31, 2009 and 2008 actuarial measurement dates, respectively:

(In thousands)	Pension benefits		Other postretirement benefits	
	2010	2009	2010	2009
Service cost — benefits earned during the year	\$ 1,393	\$ 1,353	\$ 104	\$ 93
Interest cost on projected benefit obligations	1,855	2,246	254	295
Expected return on plan assets	(2,767)	(2,540)	—	—
Amortization of prior service cost (credit)	50	(48)	124	140
Amortization of net loss	1,217	785	—	—
Net periodic benefit cost	\$ 1,748	\$ 1,796	\$ 482	\$ 528

The Company previously disclosed in its financial statements for the year ended December 31, 2009 that it did not expect to make a contribution to its pension plan for the 2010 calendar year. While no contributions were required in calendar year 2010, the Company made a \$4.7 million contribution in September to fully fund the plan based on current regulations. The Company believes no additional contributions will be required for 2010.

The Company disclosed in its financial statements for the year ended December 31, 2009 that it estimated it would pay \$0.5 million in other postretirement benefits in 2010 based on actuarial estimates. As of September 30, 2010, \$0.3 million of such benefits were paid. The Company believes that its estimated payments for the full year may be somewhat less than the prior full-year estimate. 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 retiree's portion of certain costs. Note that the amount of benefits paid in calendar year 2010 will not impact the expense for postretirement benefits for 2010.

Note 4 Guarantees

Prior to September 2010, the Company guaranteed the outstanding debt of the ESSOP that was recorded in the current portion of long-term debt, offset by a similar amount of unearned compensation that was recorded as a reduction of shareholders' equity. The loan amount was collateralized by shares of the Company's Common Stock. A payment of \$49,000 was made in the first quarter of 2010 that reduced the debt and the corresponding employee benefit stock balance included in shareholders' equity.

In September 2010, the Company made a \$1.5 million loan to the ESSOP in exchange for the ESSOP agreeing to extend the program through December 31, 2020. The ESSOP was previously set to expire on December 31, 2011. The loan amount is collateralized by shares of the Company's Common Stock. The ESSOP used \$0.5 million to pay down its existing debt to a bank, which correspondingly eliminated the \$0.5 of debt reflected on the Company's balance sheet as well as the Company's guarantee of the debt. The net result on the Company's balance sheet at September 30, 2010 was \$1.5 million recorded in employee benefit stock.

Note 5 Comprehensive Income (Loss)

Comprehensive income for the three-month periods ended September 30, 2010 and 2009 was \$10.2 million and \$14.8 million, respectively. Comprehensive income for the nine-month periods ended September 30, 2010 and 2009 was \$23.1 million and \$29.9 million, respectively.

Components of accumulated other comprehensive loss are as follows:

(In thousands)	September 30, 2010	December 31, 2009
Cumulative foreign currency translation adjustment	\$ 1,566	\$ 1,739
Unrecognized pension and postretirement benefit plan liabilities (net of tax of \$9.9 million and \$10.4 million for 2010 and 2009, respectively)	(15,414)	(16,324)
Accumulated other comprehensive loss	\$ (13,848)	\$ (14,585)

Note 6 Acquisition and Investments

On April 1, 2010, the Company purchased Cox Instruments, LLC, of Scottsdale, Arizona, and its subsidiary Flow Dynamics, Inc. for \$7.8 million. Cox Instruments and Flow Dynamics manufacture and market precision high performance flow meters that are used in demanding applications such as aerospace, custody transfer and flow measurement test stands. The Company merged the two entities into a wholly-owned subsidiary named Cox Flow Measurement, Inc. on April 1, 2010 and will treat it as a product line for management purposes. The Company's preliminary purchase price allocation at September 30, 2010 included \$0.6 million of cash, plus approximately \$0.7 million of accounts receivable, \$1.1 million of inventory, \$0.3 million of fixed assets, \$4.3 million of intangibles, \$2.0 million of goodwill and \$1.2 million of liabilities.

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

In September 2010, the Company purchased a license to manufacture and sell a key component of the Company's line of turbine meters for \$8.0 million. This amount is included in Intangible Assets in the accompanying Consolidated Condensed Balance Sheets.

In June 2010, the Company invested \$1.5 million to purchase a small ownership percentage in an emerging technology company. This amount is included in Other Assets in the accompanying Consolidated Condensed Balance Sheets.

Note 7 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 and is in the process of resolving a claim related to a parcel of land adjoining the Company's property. 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. Regarding the landfill sites, 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 2009 and the first three quarters of 2010 were not material.

Like other companies in recent years, the Company has been named as a defendant in numerous 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 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 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 8 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.

In October 2010, the Company renewed its principal line of credit (increasing it from \$35.0 million to \$50.0 million) for one year. 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 had \$32.5 million of unused credit lines available at September 30, 2010.

Note 9 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.

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

Business Description and Overview

Badger Meter's core competency is flow measurement solutions. The Company is a leading manufacturer and marketer of products incorporating liquid flow measurement and control technologies developed both internally and with other technology companies. Its products are used in a wide variety of applications, including water, oil and chemicals. The Company's product lines fall into two categories: water applications and specialty applications.

Water applications, the largest category by sales volume, include the sale of water meters and related technologies and services used by water utilities as the basis for generating water and wastewater revenues. The 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. The Company's products are also sold for other water purposes including irrigation, water reclamation and industrial process applications.

Specialty applications include the sale of 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. It also includes the sale of radio technology to natural gas utilities for installation on their gas meters.

The sales of water meters and related technologies and services for water applications constitute a majority of the Company's sales and are commonly referred to as sales of residential or commercial meters, the latter referring to larger sizes of meters.

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

Fixed network advanced metering infrastructure (AMI) systems continue to build interest among water utilities. These systems do not rely on a drive-by data collector, but rather incorporate a network of permanent data collectors or gateway receivers that are always active or listening for the radio transmission from the utility's meters. Not only do AMI systems eliminate the need for utility personnel to drive through service territories to collect meter reading data, but they have the ability to provide the utility with more frequent and diverse meter reading data at specified intervals.

The Company's net sales and corresponding net earnings depend on unit volume and mix of products, with the Company generally earning higher margins on meters equipped with AMR or AMI technology. In addition to selling its proprietary AMR/AMI products, including the ORION[®] AMR technology and the GALAXY[®] AMI system, the Company also remarkets the Itron[®] AMR product under a license and distribution agreement. The Company's proprietary AMR/AMI products generally result in higher margins than the remarketed, non-proprietary AMR/AMI 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 enables ORION data to be transmitted to a utility customer over a variety of public wireless networks for strategic deployments, such as monitoring large commercial users.

Water meter product sales, including AMR/AMI product sales, derive from customers' water meter replacement requirements along with the adoption and deployment of new technology. To a much lesser extent, housing starts also contribute to the base of new product sales. 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 contributing to an increased base of business available to meter and AMR/AMI manufacturers. The Company estimates that less than 30% of water meters installed in the United States have been converted to AMR/AMI systems. A key component of 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.

The specialty application products serve niche flow measurement and control applications across a broad industrial spectrum. Specialized communication protocols that control the entire flow measurement process drive the market. The Company's specific flow measurement and control applications and technologies serve the broad flow measurement market.

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 is now affecting the markets in which the Company does participate, particularly the water utility market. Specifically, AMI enables water utilities to capture interval readings from each meter daily. While two-way communication is currently limited in water AMI, utilities are contemplating two-

way network benefits. As noted above, the Company markets the ORION AMR products as well as the GALAXY AMI products. The Company sells either product in response to customer requirements. Since both products have comparable margins, any acceleration or slowdown in the trend toward AMI is not expected to have a significant impact on the Company's net sales related to AMR and AMI technology.

There are approximately 53,000 water utilities in the United States and the Company estimates that less than 30% of the installed water meter base have converted to an AMR or AMI technology. Although there is growing interest in AMI communication by water utilities, the vast majority of utilities installing AMR or AMI 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, 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.

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 is scheduled to expire in early 2011 and is expected to be renewed. 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 were 2.4 times greater than those of the Itron licensed products for the first nine months of 2010 and 2.3 times greater for all of 2009, the Company expects that the Itron products will remain a significant component of sales to 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, there may be additional opportunities for revenue enhancement. For instance, in recent years the Company has been asked to oversee and perform field installation of its products for selected customers. The Company assumes the role of general contractor, hiring an installation subcontractor and supervising its work. The Company also sells extended service programs for the technology sold with its products. The extended service programs provide additional services beyond the standard warranty. In addition, the Company sells ORION radio technology to natural gas utilities for installation on their gas meters. 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.

Acquisition and Investments

On April 1, 2010, the Company purchased Cox Instruments, LLC, of Scottsdale, Arizona, and its subsidiary Flow Dynamics, Inc. for \$7.8 million. Cox Instruments and Flow Dynamics manufacture and market precision high performance flow meters that are used in demanding applications such as aerospace, custody transfer and flow measurement test stands. The Company merged the two entities into a wholly-owned subsidiary named Cox Flow Measurement, Inc. on April 1, 2010 and will treat it as a product line for management purposes. The Company's preliminary purchase price allocation at September 30, 2010 included \$0.6 million of cash, plus approximately \$0.7 million of accounts receivable, \$1.1 million of inventory, \$0.3 million of fixed assets, \$4.3 million of intangibles, \$2.0 million of goodwill and \$1.2 million of liabilities.

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

In September 2010, the Company purchased a license to manufacture and sell a key component of the Company's line of turbine meters for \$8.0 million. This amount is included in Intangible Assets in the accompanying Consolidated Condensed Balance Sheets.

In June 2010, the Company invested \$1.5 million to purchase a small ownership percentage in an emerging technology company. This amount is included in Other Assets in the accompanying Consolidated Condensed Balance Sheets.

Results of Operations — Three Months Ended September 30, 2010

The Company's net sales for the three months ended September 30, 2010 increased \$14.9 million, or 24.5%, to \$75.7 million from \$60.8 million in the same period in 2009. The increase was due to higher sales in most of the Company's products lines as well as the addition of the Cox Flow Measurement product line.

Water application products represented 83.7% of sales for the three months ended September 30, 2010 compared to 89.4% for the same period in 2009. Sales of water application products increased \$9.0 million, or 16.5%, to \$63.4 million during the third quarter of 2010 compared to \$54.4 million in the same period in 2009. The increase was due to higher volumes of meters, both manual and those sold with AMR/AMI technology, and higher prices. Sales of the Company's ORION AMR technology products increased 18.4% during the third quarter of 2010 from the third quarter of 2009, while sales of the Itron related products increased 25.5%. In the most recent period, ORION related products outsold Itron related products by a ratio of 1.8 to 1. Sales of manually read meters increased by 10.6% during the third quarter of 2010 over the same period in the prior year. The Company attributes a portion of the overall increases to higher levels of demand due to the elimination of the uncertainty over the release of U.S. government stimulus funds earlier in the year. Commercial sales were relatively flat for the third quarter of 2010 compared to the third quarter of 2009.

Specialty application products represented 16.3% of sales for the three month period ended September 30, 2010 compared to 10.6% for the same period in 2009. These sales increased nearly \$5.9 million, or 92.2%, to \$12.3 million from \$6.4 million in the third quarter of 2009. The increases were driven by the addition of the Cox Flow Measurement product line, significantly higher sales of radios for natural gas meters and higher sales volumes in most of the other specialty application product lines over the third quarter 2009 levels, which were low due to weak economic conditions.

The gross margin as a percentage of net sales was 36.9% in the third quarter of 2010 compared to 39.0% in the third quarter of 2009. The decline was due to increased costs of meter castings which fluctuate with the metals market, particularly copper, and higher costs associated with meeting certain "Made in America" requirements for stimulus fund related purchases. These cost increases were offset somewhat by higher prices charged for certain of the Company's products, favorable currency exchange rates on foreign-sourced electronic components, product mix and more efficient plant utilization.

Selling, engineering and administration expenses increased \$1.5 million, or 11.2%, in the third quarter of 2010 compared to the third quarter of 2009. The increase was due to higher expenses associated with the Cox Flow Measurement acquisition, employee incentive programs, bad debt experience and increased labor costs due to additional personnel to strengthen the Company's customer support functions. Expenses are also affected by normal inflationary increases, offset by continuing cost controls.

Interest expense for the third quarter of 2010 was \$0.1 million versus interest income of \$1.0 million in the third quarter of 2009 which included a reversal of \$1.2 million of interest expense related to the favorable resolution of previously unrecognized tax benefits. Interest expense on the Company's debt continued to decline as cash generated from operations was used to lower the average debt balances.

The provision for income taxes as a percentage of earnings from continuing operations before income taxes for the third quarter of 2010 was 32.4% compared to 40.1% in the third quarter of 2009. The primary reason for the decrease was a revised estimate of overall lower state income taxes for 2010 as well as the adjustments necessary to estimated deductions upon filing the Company's tax returns.

As a result of the above mentioned items, earnings from continuing operations for the three months ended September 30, 2010 were \$9.0 million compared to \$7.0 million in the three month period ended September 30, 2009. On a diluted basis, earnings per share from continuing operations were \$0.60 for the third quarter of 2010 compared to \$0.47 for the same period in 2009.

The third quarter of 2009 results also included recognition of previously unrecognized tax benefits for certain deductions that were taken on prior tax returns related to the 2006 shutdown of the Company's French subsidiaries, which had been reflected as a discontinued operation. These tax benefits (\$7.4 million) were recognized as earnings from discontinued operations in the third quarter of 2009 due to the realization that such tax benefits became more likely than not upon the conclusion of an IRS audit of the Company's 2006 federal income tax return.

Results of Operations — Nine Months Ended September 30, 2010

The Company's net sales for the nine months ended September 30, 2010 increased \$17.9 million, or 9.2%, to \$211.8 million from \$193.9 million in the same period in 2009. The net increase was due to increases in both water and specialty application products as well as the addition of the Cox Flow Measurement product line as discussed above.

Water application products represented 85.5% of sales for the nine months ended September 30, 2010 compared to 89.9% for the same period in 2009. These sales increased \$6.8 million, or 3.9%, to \$181.1 million compared to \$174.3 million in the same period in 2009. The increase was the net effect of lower volumes of manual read meters, slightly higher volumes of meters sold with AMR/AMI technology, lower volumes of commercial meters and higher prices. Sales of the Company's ORION AMR technology products increased 7.4% in the first nine months of 2010 from the same period in 2009, while sales of the Itron related products increased 2.0%. In this nine month period of 2010, ORION related products outsold Itron related products by a ratio of 2.4 to 1. Commercial sales increased 1.5% in the first nine months of 2010 over the same period in 2009. The slowdown experienced in 2009 due to weak economic conditions and delayed purchasing decisions caused by uncertainties over the availability of funds under U.S. government stimulus programs continued into early 2010. The Company believes stimulus fund spending decisions made in mid-February 2010 eased uncertainties in the marketplace and caused delayed purchases to resume, resulting in the overall increase in year-to-date sales.

Specialty products represented 14.5% of sales for the nine month period ended September 30, 2010 compared to 10.1% for the same period in 2009. These sales increased nearly \$11.1 million, or 56.6%, to \$30.7 million for the first nine months of 2010 from \$19.6 million for the first nine months of 2009. The increases were driven by higher sales volumes in most of the specialty application product lines during the first nine months of 2010 over the same period in 2009, which were low due to weak economic conditions, increased sales of radio technology to natural gas utilities for connection to their gas meters and the addition of the Cox Flow Measurement product line.

The gross margin as a percentage of net sales was 36.9% for the first nine months of 2010 compared to 39.5% in the same period in 2009. The decline was due to increased costs of meter castings which fluctuate with the metals market, particularly copper, and higher costs associated with meeting certain "Made in America" requirements for stimulus fund related purchases. These were offset somewhat by higher prices charged for certain of the Company's products, product mix, favorable currency exchange rates on foreign-sourced electronic components and more efficient plant utilization.

Selling, engineering and administration expenses increased \$1.3 million, or 3.2%, in the nine month period ended September 30, 2010 compared to the same period in 2009. Higher expenses associated with the Cox Flow Measurement acquisition and increased employee incentive programs were partially offset by a one-time credit of \$0.7 million for the fair value of land received in the same industrial park where the Company's Mexican facilities are located. The land was received in settlement of claims against a building construction contractor. In addition, the 2009 amounts included charges associated with early retirement programs offered to certain employees that did not reoccur in 2010. Expenses are also affected by normal inflationary increases, offset by continuing cost controls.

Interest expense for the nine months ended September 30, 2010 was \$0.3 million compared to interest income of \$0.3 million for the same period in 2009, which included a reversal of \$1.2 million of interest expense related to favorable resolution of previously unrecognized tax benefits. Interest expense on the Company's debt continued to decline as cash generated from operations was used to lower the average debt balances.

The provision for income taxes as a percentage of earnings from continuing operations before income taxes for the nine month period ended September 30, 2010 was 35.8% compared to 38.1% in the same period in 2009. The primary reason for the decrease was a revised estimate of overall lower state income taxes for 2010 as well as the adjustments necessary to estimated deductions upon filing the Company's tax returns.

As a result of the above mentioned items, earnings from continuing operations for the nine months ended September 30, 2010 were \$22.4 million compared to \$21.7 million in the nine month period ended September 30, 2009. On a diluted basis, earnings per share from continuing operations were \$1.49 for the first nine months of 2010 compared to \$1.45 for the same period in 2009.

Liquidity and Capital Resources

The main sources of liquidity for the Company are cash from operations and borrowing capacity. Cash provided by operations for the first nine months of 2010 was \$13.7 million compared to \$24.6 million for the first nine months of 2009. The decline was the net impact of increases in accounts receivable and inventory balances, offset somewhat by lower pension payments and the timing of tax payments.

The receivables balance increased from \$35.8 million at December 31, 2009 to \$53.4 million at September 30, 2010 due to higher sales in the most recent period. The Company continues to believe that the current economic conditions will not significantly impact collections of the Company's outstanding receivables.

Inventories at September 30, 2010 increased to \$41.3 million from \$32.5 million at December 31, 2009. Historically, balances are lower at year-end than at other times of the year due to seasonality factors. Longer lead times from suppliers and the timing of purchases also contributed to the increase. The recent acquisition of Cox Flow Measurement represented \$1.1 million of the inventory increase.

Net property, plant and equipment at September 30, 2010 increased by \$2.5 million compared to the balance at December 31, 2009 as the result of \$7.0 million of capital expenditures, offset by depreciation expense. Included in the net increase was \$0.7 million related to land obtained from the settlement of a legal suit and \$0.3 million related to the acquisition of Cox Flow Measurement.

The increase in intangible assets from \$23.6 million at December 31, 2009 to \$34.7 million at September 30, 2010 was due primarily to a payment of \$8.0 million to license the manufacture and sale of a key component of the Company's line of turbine meters. Also included in the increase were the intangible assets acquired as part of the Cox Flow Measurement acquisition discussed above. The increase was offset somewhat by amortization expense.

Other long-term assets increased to \$7.4 million at September 30, 2010 from \$5.8 million at December 31, 2009 due primarily to the Company investing \$1.5 million to purchase a small ownership percentage in an emerging technology company. Goodwill increased to \$9.0 million at September 30, 2010 from \$7.0 million at December 31, 2009 due to the Cox Flow Measurement acquisition. The Company performs its annual impairment test for intangibles and goodwill in the fourth quarter. The Company did not identify any indicators of impairment to date in 2010 that would require interim valuations.

Short-term debt at September 30, 2010 increased to \$13.1 million compared to the balance at December 31, 2009 of \$2.6 million as the Company purchased the license agreement for the turbine technology discussed above, contributed \$4.7 million to its domestic pension plan and purchased Cox Flow Measurement for \$7.8 million. During the same period, current maturities of long-term debt decreased from \$5.4 million to zero at September 30, 2010 due to regularly scheduled payments. The Company's debt is unsecured and does not carry any financial covenants.

Payables increased to \$14.2 million at September 30, 2010 from \$10.8 million at December 31, 2009 primarily due to the timing of payments and to inventory purchases. Accrued compensation and employee benefits at September 30, 2010 increased to \$7.4 million from \$6.1 million at December 31, 2009 due to the current year accruals for employee incentive compensation, offset somewhat by the payment of employee incentive compensation amounts earned at December 31, 2009.

Accrued income and other taxes increased to \$7.5 million at September 30, 2010 from \$0.5 million at December 31, 2009 due to the current year accruals for taxes and to the timing of tax payments.

Other accrued employee benefits decreased to \$7.1 million at September 30, 2010 from \$12.0 million at December 31, 2009 due to the net effect of current year accruals and payments, including the \$4.7 million pension plan contribution discussed above.

Common stock and capital in excess of par value both increased slightly since December 31, 2009 due to new stock issued in connection with the exercise of stock options. Employee benefit stock increased as a result of the Company making a \$1.5 million loan to the Badger Meter Employee Savings and Stock Ownership Plan ("ESSOP") in the third quarter of 2010 in exchange for the ESSOP agreeing to extend the program through December 31, 2020. The ESSOP was previously set to expire on December 31, 2011. For additional information, refer to note 7 D of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and Note 4 to the Unaudited Consolidated Condensed Financial Statements in this filing.

The Company believes its financial condition remains strong. In October 2010, the Company renewed its principal line of credit (increasing it from \$35.0 million to \$50.0 million) for one year. 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 had \$32.5 million of unused credit lines available at September 30, 2010.

Other Matters

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 and is in the process of resolving a claim related to a parcel of land adjoining the Company's property. 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. Regarding the landfill sites, 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 2009 and the first three quarters of 2010 were not material.

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

See the "Special Note Regarding Forward Looking Statements" at the front of this 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, 2009 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, 2009, and have not materially changed since that report was filed except for the changes to the ESSOP as discussed in Note 4 and short-term debt as discussed in Note 8 to the Unaudited Consolidated Condensed Financial Statements in this filing.

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, 2009, 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 quarter ended September 30, 2010. 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 the Company’s disclosure controls and procedures were effective as of the end of the quarter ended September 30, 2010.

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, 2010, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II — Other Information

Item 6 Exhibits

Exhibit No.	Description
4.1	Loan Agreement dated October 30, 2010 between Badger Meter, Inc. and the M&I Marshall & Ilsley Bank relating to Badger Meter’s revolving credit loan.
4.2	Loan Agreement dated October 30, 2010 between Badger Meter, Inc. and the M&I Marshall & Ilsley Bank relating to Badger Meter’s euro note.
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.

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 26, 2010

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

BADGER METER, INC.
Quarterly Report on Form 10-Q for the Period Ended September 30, 2010
Exhibit Index

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M&I MARSHALL & ILSLEY BANK

PROMISSORY NOTE

<u>Principal</u>	<u>Loan Date</u>	<u>Maturity</u>	<u>Loan No.</u>	<u>Call / Coll</u>	<u>Account</u>	<u>Officer</u>	<u>Initials</u>
\$50,000,000.00	10-30-2010	10-30-2011					

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Badger Meter, Inc.
4545 W. Brown Deer Rd.
Milwaukee, WI 53223-2413

Lender: M&I Marshall & Ilsley Bank
SE Wisconsin Region Commercial Lending
770 North Water Street
Milwaukee, WI 53202

Principal Amount: \$50,000,000.00

Date of Note: October 30, 2010

PROMISE TO PAY. Badger Meter, Inc. ("Borrower") promises to pay to M&I Marshall & Ilsley Bank ("Lender"), or order, in lawful money of the United States of America, the principal amount of Fifty Million & 00/100 Dollars (\$50,000,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on October 30, 2011. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning November 30, 2010, with all subsequent interest payments to be due on the same day of each month after that. Unless otherwise agreed or required by applicable law, payments will be applied to Accrued Interest, Principal, Late Charges, and Escrow. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the British Bankers Association (BBA) LIBOR and reported by a major news service selected by Lender (such as Reuters, Bloomberg or Moneyline Telerate). If BBA LIBOR for the one month period is not provided or reported on the first day of a month because, for example, it is a weekend or holiday or for another reason, the One Month Libor Rate shall be established as of the preceding day on which a BBA LIBOR rate is provided for the one month period and reported by the selected news service (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notice to Borrower. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each first day of each calendar month and will become effective without notice to the Borrower. The index currently is 0.257% per annum. The Index to be applied to the unpaid principal balance of this Note will be calculated as described in the "INTEREST CALCULATION METHOD" paragraph using a rate of 1.500 percentage points over the Index, resulting in an initial rate of 1.757% per annum based on a year of 360 days. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method. This calculation method results in a higher effective interest rate than the numeric interest rate stated in this Note.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payment will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, early payments will reduce the principal balance due. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: M&I Marshall & Ilsley Bank, P.O. Box 3114, Milwaukee, WI 53201-3114.

LATE CHARGE. If a payment is not made on or before the 10th day after its due date, Borrower will be charged 5.000% of the unpaid portion of the regularly scheduled payment.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the interest rate on this Note shall be increased by adding a 5.000 percentage point margin ("Default Rate Margin"). The Default Rate Margin shall also apply to each succeeding interest rate

change that would have applied had there been no default. However, in no event will the interest rate exceed the maximum rate permitted by applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

PROMISSORY NOTE

(Continued)

Loan No: Page 2

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any government agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEY'S FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorney's fees and Lender's legal expenses, whether or not there is a lawsuit, including attorney's fees, expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Wisconsin without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of Wisconsin.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Milwaukee County, State of Wisconsin.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$15.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to

charge or setoff all sums owing on the debt against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person, or (B) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time

may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (A) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (B) Borrower or any guarantor ceases doing business or is insolvent; (C) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; (D) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender; or (E) Lender in good faith believes itself insecure.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. This Note benefits Lender and its successors and assigns, and binds Borrower and Borrower's heirs, successors, assigns, and representatives. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PROMISSORY NOTE

(Continued)

Loan No: Page 3

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

BADGER METER, INC.

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

By: /s/ Richard A. Meeusen
Chairman, President and CEO

Loan Agreement dated October 30, 2010 between Badger Meter, Inc. and the M&I Marshall & Ilsley Bank relating to Badger Meter's euro note.

**BADGER METER, INC.
EURO NOTE**

Euro 3,604,902

Milwaukee, Wisconsin

October 30, 2010

1. **FOR VALUE RECEIVED**, the undersigned, **Badger Meter, Inc.**, (hereinafter "Maker"), promises to pay to the order of **M&I Marshall & Ilsley Bank** (hereinafter "Holder") at 770 North Water Street, Milwaukee, Wisconsin, 53202, the principal sum of **THREE MILLION, SIX HUNDRED AND FOUR THOUSAND, NINE HUNDRED AND TWO EURO DOLLARS (Euro 3,604,902)** on **October 30, 2011**.

Both principal and interest are to be made in Euro Dollars at the offices of M&I Marshall & Ilsley Bank, Attention: Loan and Discount Department, 770 North Water Street, Milwaukee, Wisconsin, 53202, or at such other place as the holder shall designate in writing to the maker.

Maker also agree(s) to pay interest from the date hereof on the unpaid principal balance from time to time outstanding at a rate per annum as follows: Interest shall be due and payable on the outstanding balance due or advanced hereunder at a per annum rate equal to the LIBOR INDEX RATE (EURO) plus the MARGIN. In the event and during such time as the BANK shall determine that a CHANGE IN CIRCUMSTANCE has occurred, the interest rate on the borrowings evidenced by this Note shall adjust automatically without notice to a per annum rate equal to the BANK's PRIME RATE. Notwithstanding the foregoing, after the maturity hereof, whether by acceleration, demand, default or otherwise interest shall accrue at a rate per annum, payable on demand, equal to the BANK's PRIME RATE plus five percentage points until paid in full. CHANGE IN CIRCUMSTANCE shall mean anyone or more of the following: (a) The British Bankers Association shall cease publishing "London Interbank Offered Rates (EUROS)" for a 30 day deposit period; (b) Any governmental authority, central bank or comparable agency shall make it unlawful or impossible for the BANK to make or offer loans based upon the LIBOR INDEX RATES (EUROS); or (c) The BANK shall determine any applicable law, rule, regulation, interpretation or directive applicable to the BANK has or would have the effect of reducing the rate of return to the BANK on the loan evidenced by this Note to a level below that which the BANK would have achieved but for the loan utilizing the LIBOR INDEX RATES (EUROS). LIBOR INDEX RATE (EURO) shall mean for any applicable funding period the rate of interest (rounded upwards, if necessary, to the next higher 1/100 of 1%) published by The British Bankers Association two business days prior to funding as the "London Interbank Offered Rate (EURO)" for Euro deposits of the applicable advance period. MARGIN shall mean 175 basis points. Interest shall be payable at the end of each applicable advance period as billed to the Maker by the Holder hereof and shall be computed on the actual number of days on the basis of a year of 360 days. Each advance under this Note can be in 30-day increments for up to 360 days. Advances under this Note must be greater than or equal to \$100,000.00 and cannot be prepaid. Should maker choose an advance period greater than 90 days, holder may increase the margin to adjust the interest rate to equate to the annual compounded rate if monthly interest payments were made.

2. As used herein, the term "prime rate" shall mean the rate of interest announced from time to time by the Holder as its "prime rate," such term being used only as a reference rate and not necessarily representing the lowest rate charged to any customer of Holder. In the event Holder ceases to use the term "prime rate" in setting a base rate of interest for commercial loans, the term "prime rate" as used herein shall be determined by reference to the rate used by Holder as its base rate of interest for commercial loans.

3. It is agreed that time is of the essence in the performance of all obligations hereunder and under the Loan Documents. If Maker shall fail to make any payment hereunder when due, or upon the occurrence of an event of default in the performance or observance of any of the terms, agreements, covenants or conditions contained in the Loan Documents, then, or at any time thereafter, the entire principal balance of this Note, irrespective of the maturity date specified herein, together with the then accrued interest thereon, shall, at the election of the Holder hereof, and without notice of such election, become immediately due and payable.

4. All Makers, endorsers, guarantors and sureties hereof jointly and severally waive presentment, protest, notice of dishonor, and notice of intent to accelerate; and they also jointly and severally hereby consent to any and all renewals, extensions or modifications of the terms hereof, including the terms or time for payment; and further agree that any such renewal, extension or modification of the terms hereof or time for payment or of the terms of any of the Loan Documents or the release or substitution of any security for the indebtedness evidenced hereby or any other indulgences shall not otherwise affect the liability of any of said parties for the indebtedness evidenced by this Note. Any such renewals, extensions or modifications may be made without notice to any of said parties.

5. This Note shall be the joint and several obligation of all Makers, endorsers, guarantors, and sureties, and shall be binding upon them and their successors and assigns and shall inure to the benefit of the successors and assigns of Holder. All Makers, endorsers, guarantors, and sureties hereof agree jointly and severally to pay all costs of collection (including those incurred in any bankruptcy proceedings and regardless of whether suit is filed) and foreclosure, including reasonable attorneys' fees and costs.

6. Any forbearance of Holder in exercising any right or remedy hereunder or under the Loan Documents, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy. The acceptance by Holder of payment of any sum payable hereunder after the due date of such payment shall not be a waiver of Holder's right to either require prompt payment when due of all other sums payable hereunder or to declare a default for failure to make prompt payment.

7. This Note shall be governed by and construed in accordance with the laws of the State of Wisconsin.

8. If any payment of principal or interest due on this Note is payable on a day which is a Saturday, Sunday, or legal holiday in the State of Wisconsin, then such payment shall be due on the next business day, the amount of such payment, in such case, to include all interest accrued to the date of actual payment.

9. No setoff or counterclaim of any kind claimed by any Maker, endorser, guarantor or surety liable under this Note shall stand as a defense to the enforcement of this Note against any Maker, endorser, guarantor or surety, it being agreed that any such setoff or counterclaim must be maintained by separate suit.

10. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FOREBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT YOU (MAKER(S) AND US (HOLDER) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

11. THE MAKER HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY (WHICH THE HOLDER ALSO WAIVES) IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATING TO THIS NOTE, THE OBLIGATIONS OF THE MAKER HEREUNDER OR THE HOLDER'S CONDUCT IN RESPECT OF ANY OF THE FOREGOING. IN WITNESS WHEREOF. Maker has executed this Note as of the date first above written.

BADGER METER, INC.

By: /s/ Richard E. Johnson
Title: Senior VP — Finance, CFO & Treasurer

By: /s/ Richard A. Meeusen
Title: Chairman, President and CEO

M&I MARSHALL & ILSLEY BANK

Title: /s/ David C. Doran
Title: Vice President

By: /s/ Pat O'Connor
Title Senior Vice President

**Certification of Chairman, President and Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a)
or 15d-14(a) under the Securities Exchange Act of 1934**

I, Richard A. Meeusen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Badger Meter, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 26, 2010

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

**Certification of Senior Vice President — Finance, Chief Financial Officer and Treasurer
Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a)
or 15d-14(a) under the Securities Exchange Act of 1934**

I, Richard E. Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Badger Meter, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 26, 2010

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

Written Statement of the Chief Executive Officer and Chief Financial Officer**Pursuant to 18 U.S.C. §1350**

Solely for the purpose of complying with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Badger Meter, Inc., a Wisconsin corporation (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2010 (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 26, 2010

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