MATTEL INC /DE/
Form 10-Q
October 26, 2017

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-05647

MATTEL, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-1567322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

333 Continental Blvd. El Segundo, CA	90245-5012
(Address of principal executive offices)	(Zip Code)

(310) 252-2000
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report):
NONE

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 ý 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

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

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

Number of shares outstanding of registrant’s common stock, $1.00 par value, as of October 13, 2017:
343,729,550 shares

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MATTEL, INC. AND SUBSIDIARIES

(Cautionary Statement Under the Private Securities Litigation Reform Act of 1995)

Mattel is including this Cautionary Statement to caution investors and qualify for the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”) for forward-looking statements. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Act. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. The use of words such as “anticipates,” “expects,” “intends,” “plans,” “confident that” and “believes,” among others, generally identify forward-looking statements. These forward-looking statements are based on currently available operating, financial, economic and other information, and are subject to a number of significant risks and uncertainties. A variety of factors, many of which are beyond our control, could cause actual future results to differ materially from those projected in the forward-looking statements. Specific factors that might cause such a difference include, but are not limited to: (i) Mattel’s ability to design, develop, produce, manufacture, source and ship products on a timely and cost-effective basis, as well as interest in and purchase of those products by retail customers and consumers in quantities and at prices that will be sufficient to profitably recover Mattel’s costs; (ii) downturns in economic conditions affecting Mattel’s markets which can negatively impact retail customers and consumers, and which can result in lower employment levels, lower consumer disposable income and spending, including lower spending on purchases of Mattel’s products; (iii) other factors which can lower discretionary consumer spending, such as higher costs for fuel and food, drops in the value of homes or other consumer assets, and high levels of consumer debt; (iv) potential difficulties or delays Mattel may experience in implementing cost savings and efficiency enhancing initiatives; (v) other economic and public health conditions or regulatory changes in the markets in which Mattel and its customers and suppliers operate, which could create delays or increase Mattel’s costs, such as higher commodity prices, labor costs or transportation costs, or outbreaks of disease; (vi) currency fluctuations, including movements in foreign exchange rates, which can lower Mattel’s net revenues and earnings, and significantly impact Mattel’s costs; (vii) the concentration of the Mattel’s customers, potentially increasing the negative impact to Mattel of difficulties experienced by any of Mattel’s customers, including the bankruptcy of Toys “R” Us, Inc., or changes in their purchasing or selling patterns; (viii) the future willingness of licensors of entertainment properties for which Mattel currently has licenses or would seek to have licenses in the future to license those products to Mattel; (ix) the inventory policies of Mattel’s retail customers, including retailers’ potential decisions to lower their inventories, even if it results in lost sales, as well as the concentration of Mattel’s revenues in the second half of the year, which coupled with reliance by retailers on quick response inventory management techniques increases the risk of underproduction of popular items, overproduction of less popular items and failure to achieve compressed shipping schedules; (x) the increased costs of developing more sophisticated digital and smart technology products, and the corresponding supply chain and design challenges associated with such products; (xi) work disruptions, which may impact Mattel’s ability to manufacture or deliver product in a timely and cost-effective manner; (xii) the bankruptcy of Toys “R” Us, Inc. or other of Mattel’s significant retailers, or the general lack of success of one of Mattel’s significant retailers which could negatively impact Mattel’s revenues or bad debt exposure; (xiii) the impact of competition on revenues, margins and other aspects of Mattel’s business, including the ability to offer products which consumers choose to buy instead of competitive products, the ability to secure, maintain and renew popular licenses and the ability to attract and retain talented employees; (xiv) the risk of product recalls or product liability suits and costs associated with product safety regulations; (xv) changes in laws or regulations in the United States and/or in other major markets in which Mattel operates, including, without limitation, with respect to taxes, tariffs or product safety, which may increase Mattel’s product costs and other costs of doing business, and reduce Mattel’s earnings, (xvi) failure to realize the planned benefits from any investments or acquisitions made by Mattel, (xvii) the impact of other market conditions, third party actions or approvals and competition which could reduce demand for Mattel’s products or delay or increase the cost of implementation of Mattel’s programs or alter Mattel’s actions and reduce actual results; (xviii) changes in financing markets or the inability of Mattel to obtain financing on attractive terms (xix) the impact of litigation or arbitration decisions or settlement actions; and (xx) other risks and uncertainties detailed in Part 1, Item 1A “Risk Factors” in Mattel’s 2016 Annual Report on Form 10-K. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2017	September 30, 2016	December 31, 2016
	(Unaudited; in thousands, except share data)		
ASSETS			
Current Assets			
Cash and equivalents	$ 181,308	$ 297,089	$ 869,531
Accounts receivable, net	1,506,145	1,528,808	1,115,217
Inventories	989,995	910,546	613,798
Prepaid expenses and other current assets	352,711	342,362	341,518
Total current assets	3,030,159	3,078,805	2,940,064
Noncurrent Assets			
Property, plant, and equipment, net	821,228	747,451	773,965
Goodwill	1,397,642	1,392,155	1,387,628
Other noncurrent assets	950,655	1,430,456	1,392,137
Total Assets	$ 6,199,684	$ 6,648,867	$ 6,493,794
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	$ 732,649	$ —	$ 192,168
Current portion of long-term debt	250,000	300,000	—
Accounts payable	713,488	694,757	664,857
Accrued liabilities	568,845	629,114	628,826
Income taxes payable	32,296	21,695	19,722
Total current liabilities	2,297,278	1,645,566	1,505,573
Noncurrent Liabilities			
Long-term debt	1,886,404	2,133,489	2,134,271
Other noncurrent liabilities	576,327	454,434	446,168
Total noncurrent liabilities	2,462,731	2,587,923	2,580,439
Stockholders' Equity			
Common stock $1.00 par value, 1.0 billion shares authorized; 441.4 million shares issued	441,369	441,369	441,369
Additional paid-in capital	1,793,036	1,781,540	1,790,832
Treasury stock at cost: 97.7 million shares, 99.3 million shares, and 99.0 million shares, respectively	(2,392,422)	(2,434,520)	(2,426,749)
Retained earnings	2,460,224	3,502,076	3,545,359
Accumulated other comprehensive loss	(862,532)	(875,087)	(943,029)
Total stockholders' equity	1,439,675	2,415,378	2,407,782
Total Liabilities and Stockholders' Equity	$ 6,199,684	$ 6,648,867	$ 6,493,794

The accompanying notes are an integral part of these financial statements

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(Unaudited; in thousands, except per share amounts)			
Net Sales	$1,560,983	$1,795,575	$3,271,078	$3,622,250
Cost of sales	913,834	924,810	1,945,386	1,929,247
Gross Profit	647,149	870,765	1,325,692	1,693,003
Advertising and promotion expenses	179,691	202,900	348,752	384,614
Other selling and administrative expenses	381,756	350,469	1,066,943	1,051,799
Operating Income (Loss)	85,702	317,396	(90,003)	256,590
Interest expense	24,646	24,989	68,557	70,133
Interest (income)	(1,575)	(2,477)	(6,337)	(7,550)
Other non-operating expense, net	1,368	856	5,928	23,210
Income (Loss) Before Income Taxes	61,263	294,028	(158,151)	170,797
Provision for income taxes	664,510	57,778	614,402	26,620
Net (Loss) Income	$(603,247)	$236,250	$(772,553)	$144,177
Net (Loss) Income Per Common Share—Basic	$(1.75)	$0.69	$(2.25)	$0.42
Weighted average number of common shares	343,870	341,961	343,304	341,089
Net (Loss) Income Per Common Share—Diluted	$(1.75)	$0.68	$(2.25)	$0.42
Weighted average number of common and potential common shares	343,870	344,226	343,304	343,298
Dividends Declared Per Common Share	$0.15	$0.38	$0.91	$1.14

The accompanying notes are an integral part of these financial statements.

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(Unaudited; in thousands)			
Net (Loss) Income	$(603,247)	$ 236,250	$(772,553)	$ 144,177
Other Comprehensive Income (Loss), Net of Tax:				
Currency translation adjustments	36,912	(14,570)	142,248	(18,926)
Defined benefit pension plan adjustments	1,106	2,024	3,185	4,568
Net unrealized losses on available-for-sale security	(3,848)	—	(7,585)	—
Net unrealized losses on derivative instruments:				
Unrealized holding (losses) gains	(24,009)	974	(63,999)	642
Reclassification adjustment for realized losses (gains) included in net (loss) income	9,241	(2,157)	6,648	(12,472)
	(14,768)	(1,183)	(57,351)	(11,830)
Other Comprehensive Income (Loss), Net of Tax	19,402	(13,729)	80,497	(26,188)
Comprehensive (Loss) Income	$(583,845)	$ 222,521	$(692,056)	$ 117,989

The accompanying notes are an integral part of these financial statements.

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended	
	September 30, 2017	September 30, 2016
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net (loss) income	$ (772,553)	$ 144,177
Adjustments to reconcile net (loss) income to net cash flows used for operating activities:		
Depreciation	179,831	177,939
Amortization	16,264	19,577
Asset impairments	14,942	—
Deferred income taxes	2,057	(38,424)
Valuation allowance on deferred tax assets	561,915	—
Share-based compensation	47,582	38,744
(Decrease) increase from changes in assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(355,821)	(389,550)
Inventories	(359,013)	(311,141)
Prepaid expenses and other current assets	(19,027)	25,292
Accounts payable, accrued liabilities, and income taxes payable	9,893	42,006
Other, net	(66,140)	(39,966)
Net cash flows used for operating activities	(740,070)	(331,346)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(101,428)	(101,562)
Purchases of other property, plant, and equipment	(133,895)	(77,586)
Payments for acquisition, net of	—	(33,154)

cash acquired		
Proceeds from foreign currency forward exchange contracts	60,376	6,228
Other, net	38	1,349
Net cash flows used for investing activities	(174,909)	(204,725)
Cash Flows From Financing Activities:		
Payments of short-term borrowings, net	(878,937)	(83,914)

	112,500									
	(2)	Jan 31, 2012	84,123	168,245	252,368					
Gregory M. Gomez		May 5, 2012				1,200			43,380
		May 5, 2012					2,400	36.15	33,072
	(1)	Jan 31, 2012	17,500	35,000	52,500				
	(2)	Jan 31, 2012	29,750	59,500	89,250				
Horst E. Gras		May 5, 2012				800			28,920
		May 5, 2012					1,600	36.15	22,048
	(1)	Jan 31, 2012	12,500	25,000	37,500				
	(2)	Jan 31, 2012	58,032	116,064	174,046				
Dennis J. Webb		May 5, 2012							
		May 5, 2012							
	(1)	Jan 31, 2012							
	(2)	Jan 31, 2012	64,200	128,400	192,600				

(1) These awards were granted in 2012 under the three-year LTIP for potential payout in 2015. See the discussion of the plan in Compensation Discussion and Analysis Elements of Compensation above.

(2) These awards were granted in 2012 under the annual bonus plan to be paid out in 2013. The actual results in 2012 resulted in payouts totaling 87.1% of award. See the discussion of the plan in the Compensation Discussion and Analysis Elements of Compensation above.

Stock Awards represent the fair value of restricted stock awards granted to each NEO on May 5, 2012 under the 2011 Omnibus Incentive Plan and are valued at the closing price of the common stock on that date ($36.15 per share). The restricted stock vests 100% after three years from the date of grant. Dividends on the restricted shares are accrued during the vesting period and paid to the recipient upon full vesting of the shares.

Option Awards represent the fair value of stock options granted to each NEO on May 5, 2012. The assumptions made in valuing the option awards are included under the caption Stock Options in Note 5 to the Consolidated Financial Statements in our 2012 Annual Report on Form 10-K and such information is incorporated herein by reference. All options were granted on May 5, 2012, with an exercise price set at the closing price of the common stock on that date ($36.15 per share). All option awards vest 20% per year over five

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years. The value of the options is $13.78 for the NEOs . The overall average fair value of all options issued in 2012 was $13.17, only a portion of which we expensed in fiscal year 2012. This value was computed in accordance with FASB ASC Topic 718 under the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate of 0.85%; dividend yield of 1.77%; expected market price volatility factor of 49.7%, and a weighted average expected life of 5.3 years. All option awards have a ten-year life from the date of grant. All unvested awards are forfeited on retirement or termination of employment for cause or otherwise. The awards are not subject to any performance-based or other material conditions.

Outstanding Equity Awards At Year-End

The following table sets forth information on outstanding option and stock awards held by the NEOs at December 31, 2012, including the number of shares underlying both exercisable and unexercisable portions of each stock option award as well as the exercise price and expiration date of each outstanding option.

Outstanding Equity Awards as of December 31, 2012

	Option Awards(1)				Stock Awards(1)	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (2)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)(2)	Market Value of Shares of Stock That Have Not Vested ($)
Richard A. Meeusen	6,600	0	18.33	May 9, 2015		
	5,400	0	31.41	May 5, 2016		
	6,300	0	24.94	May 4, 2017		
	3,840	960	52.81	May 2, 2018		
	5,400	3,600	38.69	May 1, 2019		
	4,080	6,120	38.41	May 7, 2020		
	2,660	10,640	36.59	May 6, 2021		
	0	18,800	36.15	May 5, 2022	19,450	922,125
Richard E. Johnson	4,500	0	18.33	May 9, 2015	6,200	293,942
	3,600	0	31.41	May 5, 2016		
	3,600	0	24.94	May 4, 2017		
	2,400	600	52.81	May 2, 2018		
	3,240	2,160	38.69	May 1, 2019		
	1,200	1,800	38.41	May 7, 2020		

	1,000	4,000	36.59	May 6, 2021		
	0	7,500	36.15	May 5, 2022		
Gregory M. Gomez	3,600	900	52.81	May 2, 2018		
	1,800	1,200	38.69	May 1, 2019		
	480	720	38.41	May 7, 2020		
	400	1,600	36.59	May 6, 2021		
	0	2,400	36.15	May 5, 2022	2,800	132,748
Horst E. Gras	1,200	300	52.81	May 2, 2018		
	1,800	1,200	38.69	May 1, 2019		
	480	720	38.41	May 7, 2020		
	0	960	36.59	May 6, 2021		
	0	1,600	36.15	May 5, 2022	2,000	94,820
Dennis J. Webb	480	0	24.94	May 4, 2017		
	1,800	1,200	38.69	May 1, 2019		
	480	720	38.41	May 7, 2020		
	240	960	36.59	May 6, 2021	1,200	56,892

(1) There were no stock or option awards outstanding for any of the NEOs as of December 31, 2012 that were related to equity incentive programs, the realization of which would depend on specific financial or performance outcomes.

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(2) Restricted stock awards generally vest 100% after three years from date of grant. A portion of the stock options with an expiration date of May 2, 2013, vested at a rate of 25% per year, starting May 2, 2006, with full vesting completed on May 2, 2009. All other stock options vest as follows:

Expiration Date	Grant Date	Vesting Term	Full Vesting
Jan. 29, 2012	Jan 29, 2002	20% per year	Jan 29, 2007
May 2, 2013	May 2, 2003	20% per year	May 2, 2008
May 9, 2015	May 9, 2005	20% per year	May 9, 2010
May 5, 2016	May 5, 2006	20% per year	May 5, 2011
May 4, 2017	May 4, 2007	20% per year	May 4, 2012
May 2, 2018	May 2, 2008	20% per year	May 2, 2013
May 1, 2019	May 1, 2009	20% per year	May 1, 2014
May 7, 2020	May 7, 2010	20% per year	May 7, 2015
May 6, 2021	May 6, 2011	20% per year	May 6, 2016
May 5, 2022	May 5, 2012	20% per year	May 5, 2017

Option Exercises and Stock Vested

The following table sets forth information relating to the number of stock options exercised during the last fiscal year for each of the NEOs on an aggregate basis. It also gives the number of shares of restricted stock that vested during 2012 and its value on the date of vesting at a price of $37.07 per share.

Option Exercises and Stock Vested for 2012

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting	Value Realized on Vested Shares ($)
Richard A. Meeusen			3,000	111,210
Richard E. Johnson	5,000	129,950	1,800	66,726
Gregory M. Gomez			1,000	37,070
Horst E. Gras	720	5,102	1,000	37,070
Dennis J. Webb	6,480	87,584	1,000	37,070

For further details regarding stock options and restricted stock, see the description of the LTIP in Compensation Discussion and Analysis Elements of Compensation above.

Pension Benefits

Qualified Defined Benefit Plan

The following table sets forth the actuarial present value of each NEO s accumulated benefit under each defined benefit plan, assuming benefits are paid at normal retirement age based on current levels of compensation. Except for Mr. Gras, the valuation method and all material assumptions applied in quantifying the present value of the current accumulated benefit for each NEO included under the caption Employee Benefit Plans in Note 7 to the Consolidated Financial Statements in our 2012 Annual Report on Form 10-K, and such information is incorporated herein by reference. The table also shows the number of years of credited service under each such plan, computed as of the same pension plan measurement date used in the company s audited financial statements for the year ended December 31, 2012. Note that benefits under this plan were frozen as of December 31, 2010 and replaced with a defined contribution plan (see discussion below). Interest will continue

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to be credited on the frozen balance at a rate of interest based upon 30-year U.S. Treasury securities. The table also reports any pension benefits paid to each NEO during the year.

Pension Benefits as of December 31, 2012

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit ($)	Payments During 2012 ($)
Richard A. Meeusen	Qualified Pension Plan	17	252,466	
	Non-qualified Unfunded Supplemental Retirement Plan	17	333,086	
	Non-qualified Unfunded Executive Supplemental Plan	N/A	317,776	
Richard E. Johnson	Qualified Pension Plan	12	154,497	
	Non-qualified Unfunded Supplemental Retirement Plan	12	92,813	
	Non-qualified Unfunded Executive Supplemental Plan	N/A	184,281	
Gregory M. Gomez	Qualified Pension Plan	28	178,555	
	Non-qualified Unfunded Supplemental Retirement Plan	N/A		
Horst E. Gras	Value of Insurance Policy (translated from Euros)	20	751,681	
Dennis J. Webb	Qualified Pension Plan	28	442,168	
	Non-qualified Unfunded Supplemental Retirement Plan	28	79,892	

Qualified Defined Contribution Plan

We maintain a defined contribution retirement plan (through the ESSOP) covering all domestic salaried employees, including each NEO except Mr. Gras, who is a German resident and citizen. Through our subsidiary Badger Meter Europe, we provide Mr. Gras with an insurance policy that provides benefits similar to those of the other NEOs.

Under the defined contribution plan, Messrs. Meeusen, Johnson, Gomez and Webb each have an account balance which is credited each year with dollar amounts equal to 5% of compensation, plus 2% of compensation in excess of the Social Security wage base. Individuals then invest the funds in various investment vehicles offered to all employees. Any amounts exceeding qualified plan limits are reflected in the Non-qualified Unfunded Supplemental Retirement Plan amounts in the above table. Amounts earned in 2012 for Messrs. Meeusen, Johnson, Gomez and Webb were $15,466, $15,097, $9,866 and $15,466, respectively. Such amounts were credited to their accounts in early 2013.

Non-Qualified Unfunded Supplemental Retirement Plan

Since benefits under our retirement programs are based on taxable earnings, any deferral of salary or bonus can result in a reduction of these benefits. To correct for this reduction, participants in the salary deferral program also participate in a non-qualified unfunded supplemental retirement benefit plan designed to compensate for reduced retirement benefits caused by the deferral of salary. Benefits under this plan represent the difference between normal retirement benefits that the executive officer would have earned if no salary had been deferred, and the reduced benefit level due to the salary deferral.

Internal Revenue Service regulations limit the amount of compensation to be considered in qualified pension benefit calculations to $250,000 in 2012, and varying amounts for prior years. Any employee, including

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any NEO, whose compensation is in excess of the Internal Revenue Service limits also participates in the non-qualified unfunded supplemental retirement plan. Benefits from this plan are calculated to provide the participant the same pension benefits as if there were no compensation limit. These benefits are included in the table above.

Non-Qualified Unfunded Executive Supplemental Plans

Messrs. Meeusen and Johnson participate in a non-qualified unfunded executive supplemental retirement plan. This is a defined contribution plan, under which we contribute annually 7.5% of each participant s annual salary. Participants may elect a lump-sum payout or annual installments up to ten years. Interest is credited monthly on the beginning of the year balance at the prime rate of interest.

Non-qualified Deferred Compensation

The following table sets forth annual executive officer and company contributions under non-qualified defined contribution and other deferred compensation plans, as well as each NEO s withdrawals, earnings and fiscal-year end balances in those plans. Messrs. Meeusen, Gomez and Gras do not currently participate in any such plans.

Non-qualified Deferred Compensation for 2012 ($)

Name	Executive Contributions in 2012(1)(2)	Company Contributions in 2012	Aggregate Earnings in 2012(2)	Aggregate Withdrawals/ Distribution	Aggregate Balance at December 31, 2012
Richard E. Johnson	61,180		2,330	29,568	287,927
Dennis J. Webb			2,049		217,408

(1) All executive officers, except Mr. Gras, are eligible to participate in a Salary Deferral Plan. Under this plan, officers may elect to defer up to 50% of their annual base salary and up to 100% of their annual bonuses. Participants may elect to defer payment for a specified period of time or until retirement or separation from service. Participants may also elect a lump-sum payout or annual installments up to ten years. Interest is credited quarterly on the deferred balances at an annual interest rate equal to the sum of the five-year U.S. Treasury constant maturities rate of interest plus one and one-half percent.

(2) All executive officer contributions shown in the above table are also included in the Summary Compensation Table as part of salary or bonus, along with the portion of the 2012 earnings shown in the above table that are considered above-market (as quantified in Note 5 to the Summary Compensation Table).

Potential Payments Upon Termination or Change-in-Control

We have entered into Key Executive Employment and Severance Agreements (each referred to as a KEESA) with all executive officers (except Mr. Gras), whose expertise has been critical to our success, to remain with us in the event of any merger or transition period. Each KEESA provides for payments in the event there is a change-in-control and (1) the executive officer s employment with us terminates (whether by us, the executive officer or otherwise) within 180 days prior to the change-in-control and (2) it is reasonably demonstrated by the executive officer that (a) any such termination of employment by us (i) was at the request of a third party who has taken steps reasonably calculated to effect a change-in- control or (ii) otherwise arose in connection with or in anticipation of a change-in-control, or (b) any such termination of employment by the executive officer took place because of an event that allowed the termination for good reason, which event (i) occurred at the request of a third party who has taken steps reasonably calculated to effect a change-in-control or (ii) otherwise arose in connection with or in anticipation of a change-in-control.

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There are two forms of the KEESA. The KEESA for the Chairman, President and Chief Executive Officer provides for payment of salary and annual incentive compensation of three years, as well as the actuarial equivalent of the additional retirement benefits he would have earned had he remained employed for three more years, continued medical, dental, and life insurance coverage for three years, outplacement services and financial planning counseling. The KEESA for all other executive officers provides for payment of two years salary and annual incentive compensation, along with two years coverage pursuant to the other benefits set forth above. Any executive officer who receives compensation under the KEESA is restricted from engaging in competitive activity for a period of six months after termination and is required to maintain appropriate confidentiality relative to all company information. The agreements also provide for a tax gross-up payment to the executive if any payments in connection with the change-in-control are subject to the 20% excise tax imposed by the Internal Revenue Service for excess parachute payments.

For purposes of each KEESA, a change-in-control is deemed to have occurred if (1) any person (other than the company or any of its subsidiaries, a trustee or other fiduciary holding securities under any employee benefit plan of the company or any of its subsidiaries, an underwriter temporarily holding securities pursuant to an offering of such securities or a corporation owned, directly or indirectly, by our shareholders in substantially the same proportions as their ownership of stock in the company) is or becomes the beneficial owner, directly or indirectly, of 15% or more of our voting securities; or (2) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on July 31, 1999, constituted the Board of Directors and any new director whose appointment or election by the Board of Directors or nomination for election by our shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors on July 31, 1999 or whose appointment, election or nomination for election was previously so approved; or (3) our shareholders approve a merger, consolidation or share exchange of the company with any other corporation or approve the issuance of our voting securities in connection with a merger, consolidation or share exchange of the company, with limited exceptions; or (4) our shareholders approve a plan of complete liquidation or dissolution of the company or an agreement for the sale or disposition by us of all or substantially all of our assets (in one transaction or a series of related transactions within any period of 24 consecutive months), other than a sale or disposition by us of all or substantially all of our assets to an entity at least 75% of the combined voting power of the voting securities of which are owned by persons in substantially the same proportions as their ownership of the company immediately prior to such sale.

For purposes of each KEESA, good reason means that the executive officer has determined in good faith that any of the following events has occurred: (1) any breach of the KEESA by us other than an isolated, insubstantial and inadvertent failure not occurring in bad faith that we promptly remedy; (2) any reduction in the executive officer s base salary, percentage of base salary available as incentive compensation or bonus opportunity or benefits, in each case relative to those most favorable to the executive officer in effect at any time during the 180-day period prior to the change-in-control or, to the extent more favorable to the executive officer, those in effect after the change-in-control; (3) a material adverse change, without the executive officer s prior written consent, in the executive officer s working conditions or status with us from such working conditions or status in effect during the 180-day period prior to the change-in-control or, to the extent more favorable to the executive officer, those in effect after the change-in-control; (4) the relocation of the executive officer s principal place of employment to a location more than 35 miles from the executive officer s principal place of employment on the date 180 days prior to the change-in-control; (5) we require the executive officer to travel on business to a materially greater extent than was required during the 180-day period prior to the change-in-control; (6) we terminate the executive officer s employment after a change-in-control without delivering the required notice, in specified circumstances.

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The following table describes the potential payments upon termination or a change-in-control. This table assumes the NEO s employment was terminated on December 30, 2012, the last business day of our prior fiscal year. While Mr. Gras does not have a KEESA, German law would provide him with similar benefits from the company, which are translated at the year-end exchange rate. In addition to the table below, any unvested stock options or unvested restricted stock, as shown on page 22, would vest upon a change-in-control.

KEESA Benefits if Exercised at December 31, 2012 ($)

Name	Salary and Bonus	Retirement Benefits	Medical Dental Life	Other	Total
Richard A. Meeusen	3,078,000	231,991	56,682	21,000	3,387,673
Richard E. Johnson	948,290	81,876	35,974	21,000	1,087,140
Gregory M. Gomez	459,000	18,056	34,683	21,000	532,739
Horst E. Gras	908,424	355,543	34,200	21,000	1,319,167
Dennis J. Webb	770,400	29,511	34,192	21,000	855,103

Compensation and Corporate Governance Committee Report

The Compensation and Governance Committee has reviewed and discussed the above Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in the annual report on Form 10-K for the fiscal year ended December 31, 2012.

Compensation and Corporate Governance Committee

Steven J. Smith, Chairman

Gale E. Klappa

Andrew J. Policano

Todd J. Teske

Compensation Risk Assessment

The Compensation and Governance Committee has conducted a risk assessment of our employee compensation programs, including our executive compensation programs, and has concluded that these programs are designed with the appropriate balance of risk and reward in relation to our overall business strategy and do not incent executives or other employees to take unnecessary or excessive risks. As a result, we believe that risks arising from our employee compensation policies and practices are not likely to have a material adverse effect on the company.

Director Compensation

Compensation Philosophy and Role of the Committee

Our compensation policies for directors are designed to attract and retain the most qualified individuals to serve on the Board of Directors in the industry in which we operate. We believe that director compensation is comparable relative to the competitive market. Director compensation is determined by the Compensation and Governance Committee with approval by the full Board of Directors, and equity programs such as our Director Stock Grant Plans, are approved by shareholders.

Recommendations regarding outside director compensation are made by the Compensation and Governance Committee. The independent executive compensation consultant provides the Compensation and Governance Committee with a competitive compensation analysis of outside director compensation programs relative to our industry for use in the Compensation and Governance Committee s decision-making. Although the independent executive compensation consultant provides market data for consideration by the Compensation and Governance

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Committee in setting director compensation levels and programs, the compensation consultant does not make specific recommendations on individual compensation amounts for the directors, nor does the consultant determine the amount or form of director compensation. All decisions on director compensation levels and programs are made by the full Board of Directors based on the recommendations provided by the Compensation and Governance Committee.

Director Compensation Table and Components of Director Compensation

The following table summarizes the director compensation for 2012 for all of our non-employee directors. Mr. Meeusen does not receive any additional compensation for his services as a director beyond the amounts previously disclosed in the Summary Compensation Table.

Director Compensation for 2012

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Total ($)
Ronald H. Dix	53,767	47,468	101,235
Thomas J. Fischer	63,767	47,468	111,235
Gale E. Klappa	58,567	47,468	106,035
Gail A. Lione	50,281	47,468	97,749
Andrew J. Policano	59,367	47,468	106,835
Steven J. Smith	61,767	47,468	109,235
Todd J. Teske	61,767	47,468	109,235

(1) Under the 2011 Omnibus Incentive Plan, each director was awarded a grant of stock valued at $47,500. The amount was divided by $36.94, the closing price of the stock on the date of grant, and rounded down to the nearest whole share amounting to 1,285 shares of common stock on April 30, 2012. This column reflects the value of that award. As of December 31, 2012, the directors had the following outstanding number of vested option awards: Mr. Dix (10,700 granted during his employment at the company), Mr. Fischer (0), Mr. Klappa (6,000), Ms. Lione (0), Mr. Policano (6,400), Mr. Smith (0), and Mr. Teske (6,000). There were no outstanding stock awards at December 31, 2012. Ms. Lione was initially appointed to the Board of Directors on February 17, 2012. She received an option award of 6,000 shares on May 4, 2012 that vests on May 4, 2013.

Retainer and Meeting Fees. In 2012, non-employee directors received a $27,667 annual retainer. Ms. Lione received a $24,181 retainer because she did not join the board until February 17, 2012. Non-employee directors receive $2,500 for each Board of Directors meeting attended and $1,200 for each committee meeting attended. In addition, they are reimbursed for reasonable out-of-pocket travel, lodging and meal expenses. The chairman of the Audit Committee received an annual fee of $4,000. All other committee chairmen and the Lead Outside Director each received an annual fee of $2,000.

All non-employee directors also received an annual grant of stock equal to $47,500 in whole shares as determined by the closing market price for a share of common stock on the date of grant rounded down to the nearest whole share. Non-employee directors are required to own one-times their annual board compensation in company stock within three years of first being elected to the board.

Badger Meter Deferred Compensation Plan for Directors. Directors may elect to defer their compensation, in whole or in part, in a stock and/or cash account of the Badger Meter Deferred Compensation Plan for Directors.

Our non-employee directors do not participate in any incentive plans or pension plans, and receive no perquisites, benefits or other forms of compensation, other than as disclosed above. New directors receive a one-time option award of 6,000 shares following the annual meeting of their first election by shareholders.

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

There were no Compensation and Governance Committee interlocks or insider participation.

ADVISORY VOTE TO APPROVE COMPENSATION OF

NAMED EXECUTIVE OFFICERS

Our board of directors is committed to and recognizes the importance of responsible executive compensation practices. As discussed below, we have designed our executive compensation program to attract, motivate, reward, and retain senior management required to achieve our corporate objectives and to increase long-term shareholder value.

As required by Section 14A of the Securities Exchange Act, we are providing our shareholders with an opportunity to provide an advisory vote to approve the executive compensation of our named executive officers. This advisory vote commonly referred to as Say on Pay is not binding. However, our board of directors and the compensation and governance committee will review and consider the outcome of the advisory vote when making future compensation decisions for our executive officers. Shareholders are asked to vote on the following resolution:

RESOLVED, that the compensation paid to our named executive officers (NEOs), as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, and compensation tables and any related material disclosed above in this proxy statement, is hereby APPROVED.

In addition to reviewing the summary below, we encourage you to carefully review the information on our compensation policies and decisions regarding our NEOs presented in the Compensation Discussion and Analysis on pages 13 to 18, as well as the information contained in the Compensation Tables on pages 19 to 27.

We employ a strong pay-for-performance philosophy for our entire executive team, including our NEOs. Our compensation philosophy and compensation programs have resulted in compensation that reflects our financial results and other performance factors described in the Compensation Discussion and Analysis, as well as stock price performance. We achieve these objectives through the following:

- A total compensation package that is targeted at the median of our peer companies;
- A total compensation package that is structured so that a majority of compensation opportunities are delivered through short- and long-term incentives;
- A short-term incentive driven primarily by our financial earnings performance, and secondarily by key nonfinancial metrics;
- A long-term incentive program that, in keeping with prevailing industry practice, is significantly driven by our relative total shareholder return as compared to other industry peers, along with a mix of stock options and restricted stock to further tie compensation to stock price performance as well as enhance retention; and
- Stock ownership guidelines that continue to tie executives interests to shareholders over the long term.

Furthermore, we do not currently use employment contracts with our executive officers nor provide severance protection other than following a change-in-control of our company. We believe our change-in-control protections are in the best interests of our shareholders. Further, we maintain double-trigger protection (requiring a change-in-control and subsequent employment termination) following a change-in-control for any executive officer, including our NEOs.

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If you submit a proxy to us, it will be voted as you direct. ***If, however, you submit a proxy without specifying voting directions, it will be voted in favor of the non-binding advisory resolution above.*** If your shares are held in street name by your broker, nominee, fiduciary or other custodian, your broker, nominee, fiduciary or other custodian may only vote your shares on this proposal with your specific voting instructions. Therefore, we urge you to respond to your brokerage firm so that your vote will be cast.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR

THE NON-BINDING ADVISORY RESOLUTION ABOVE.

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EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of December 31, 2012 regarding total shares subject to outstanding stock options, warrants and rights and total additional shares available for issuance under our existing equity compensation plans.

Plan Category	Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (#)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ($)	Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column 1)(#)
Equity compensation plans approved by security holders			
STOCK OPTION PLANS*	172,420	33.36	
2011 OMNIBUS INCENTIVE PLAN	75,160	36.33	551,993
Equity compensation plans not approved by security holders	None	N/A	N/A
Total	247,580	34.26	551,993

* Includes outstanding grants made under earlier Stock Option Plans. All securities available for future issuance from the earlier Plans were rolled into the 2011 Omnibus Incentive Plan.

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee (referred to as the Audit Committee) is established by the Board of Directors (referred to as the Board) for the primary purpose of assisting the Board in the oversight and integrity of the company s financial statements, compliance with legal and regulatory requirements, the independent auditor s qualifications and independence, the performance of the internal audit function and the work of the independent auditors, and system of disclosure controls and system of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established. The Audit Committee meets at least quarterly and reports to the Board regularly. It met five times in 2012.

The Audit Committee is vested with all responsibilities and authority required by Rule 10A-3 under the Securities Exchange Act of 1934. It is comprised of the four members of the Board of Directors named below, each of whom is independent as required by the New York Stock Exchange and U.S. Securities Exchange Commission rules currently in effect. The Board evaluates the independence of the directors on at least an annual basis. All four members of the Audit Committee have been determined by the Board to be financial experts as defined by Securities and Exchange Commission rules. The Audit Committee acts under a written charter available on the Company s website at www.badgermeter.com.

Management of the company has the primary responsibility for the preparation of financial statements and the reporting process, including the systems of internal controls. Management represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States. In fulfilling its oversight responsibilities, the Audit Committee reviewed with management the audited financial statements as of and for the year ended December 31, 2012, including discussion regarding the propriety of the application of accounting principles, the reasonableness of significant judgments and estimates used in the preparation of the financial statements, and the clarity of disclosures in the financial statements. The Audit Committee also reviewed and discussed the audited 2012 financial statements with our independent auditors, Ernst & Young LLP, who are responsible for expressing an opinion on the conformity of the audited financial statements with U.S. generally accepted accounting principles.

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Additionally, the Audit Committee has done, among other things, the following:

- met with Ernst & Young LLP, with and without management present, to discuss the results of their audit examinations, their evaluations of the internal controls, and the overall quality of the financial reporting, as well as the matters required to be discussed by professional standards and regulatory requirements as currently in effect;

- reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2012 with the company s management and Ernst & Young LLP;

- discussed with Ernst & Young LLP those matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1 AU section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB) and SEC Regulation S-X, Rule 2-07 Communication with Audit Committees; and

- received the written disclosures and the letter from Ernst & Young LLP required pursuant to Rule 3526, Communication with Audit Committees Concerning Independence, of the PCAOB.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2012 for filing with the U.S. Securities and Exchange Commission.

All members of the Audit Committee have approved the foregoing report.

Audit and Compliance Committee

Thomas J. Fischer, Chairman

Gale E. Klappa

Steven J. Smith

Todd J. Teske

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PRINCIPAL ACCOUNTING FIRM FEES

Fees for professional services provided by the independent registered public accounting firm in each of the last two fiscal years is as follows:

	2012	2011
Audit(1)	$ 527,643	$ 397,500
Audit Related(2)	30,500	5,200
Tax		
All other Fees		
Total Fees	$ 558,143	$ 402,700

(1) Includes annual financial statement audit, review of our quarterly reports on Form 10-Q and statutory audits required internationally.

(2) Represents accounting and advisory services related to technical accounting consultations, financial reporting, adoption of new and proposed accounting standards and audits of purchase accounting activities.

As part of its duties, the Audit Committee pre-approves services provided by Ernst & Young LLP. In selecting Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013 the Audit Committee has reviewed all 2012 audit services provided by Ernst & Young LLP to make sure they were compatible with maintaining the independence of Ernst & Young LLP. There were no additional non-audit services performed in 2012.

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee selected Ernst & Young LLP, independent registered public accounting firm, to audit the consolidated financial statements of the company for the year ending December 31, 2013, as well as its internal control over financial reporting as of December 31, 2013, and requests that the shareholders ratify such selection. If shareholders do not ratify the selection of Ernst & Young LLP, the Audit Committee will reconsider the selection.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions.

If you submit a proxy to us, it will be voted as you direct. ***If, however, you submit a proxy without specifying voting directions, it will be voted in favor of ratifying Ernst & Young LLP as the company s independent registered public accounting firm.*** If your shares are held in street name by your broker, nominee, fiduciary or other custodian, your broker, nominee, fiduciary or other custodian may choose to vote for you on the ratification of the appointment of Ernst & Young LLP as independent registered public accountants for the company, even if you do not provide voting instructions to such nominee.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR

RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY S INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and persons who beneficially own more than ten percent of our common stock to file reports concerning the ownership of our equity securities with the Securities and Exchange Commission and us. Based solely on a review of the copies of such forms furnished to us, we believe that all reports required by Section 16(a) to be filed by our insiders were filed on a timely basis.

OTHER MATTERS

The cost of solicitation of proxies will be borne by us. Brokers, nominees, fiduciaries or other custodians who hold stock in their names and who solicit proxies from the beneficial owners will be reimbursed by us for out-of-pocket and reasonable clerical expenses.

The Board of Directors does not intend to present at the Annual Meeting any matters other than those set forth herein and does not presently know of any other matters that may be presented at the Annual Meeting by others. However, if any other matters should properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote said proxy on any such matters in accordance with their best judgment.

A shareholder wishing to include a proposal in the proxy statement for the 2014 Annual Meeting of Shareholders pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (referred to as Rule 14a-8), must forward the proposal to our Secretary by November 15, 2013.

A shareholder who intends to present business, other than a shareholder s proposal pursuant to Rule 14a-8, at the 2014 Annual Meeting of Shareholders (including nominating persons for election as directors) must comply with the requirements set forth in our Restated By-Laws. Among other things, to bring business before an annual meeting, a shareholder must give written notice thereof, complying with the Restated By-Laws, to our Secretary not less than 60 days and not more than 90 days prior to the second Saturday in the month of April (subject to certain exceptions if the annual meeting is advanced or delayed a certain number of days). Accordingly, if we do not receive notice of a shareholder proposal submitted otherwise than pursuant to Rule 14a-8 between January 12, 2014 and February11, 2014, then the notice will be considered untimely and we will not be required to present such proposal at the 2014 Annual Meeting of Shareholders. If the Board of Directors chooses to present such proposal at the 2014 Annual Meeting, then the persons named in proxies solicited by the Board of Directors for the 2014 Annual Meeting may exercise discretionary voting power with respect to such proposal.

We have filed an Annual Report on Form 10-K with the Securities and Exchange Commission for our fiscal year ended December 31, 2012. The information under the caption Stock Options in Note 5 to the Consolidated Financial Statements contained in the Annual Report on Form 10-K and the information under the caption Employee Benefit Plans in Note 7 to the Consolidated Financial Statement contained in the Annual Report on Form 10-K is incorporated by reference into this Proxy Statement. The Form 10-K is posted on our Web site at www.badgermeter.com. We will provide a copy of this Form 10-K without exhibits to each person who is a record or beneficial holder of shares of common stock on the record date for the Annual Meeting. We will provide a copy of the exhibits without charge to each person who is a record or beneficial holder of shares of common stock on the record date for the Annual Meeting who submits a written request for it. Requests for copies of the Form 10-K should be addressed to Secretary, Badger Meter, Inc., 4545 West Brown Deer Road, P.O. Box 245036, Milwaukee, Wisconsin 53224-9536; (414) 355-0400.

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Pursuant to the rules of the Securities and Exchange Commission, services that deliver our communications to shareholders that hold their stock through a bank, broker or other holder of record may deliver to multiple shareholders sharing the same address a single copy of our Annual Report to shareholders and Proxy Statement. Upon written or oral request, we will promptly deliver a separate copy of the Annual Report to shareholders and/or Proxy Statement to any shareholder at a shared address to which a single copy of each document was delivered, or a single copy to any shareholders sharing the same address to whom multiple copies were delivered. Shareholders may notify us of their requests by writing or calling the Secretary, Badger Meter, Inc., 4545 West Brown Deer Road, P.O. Box 245306, Milwaukee, WI, 53224-9536; (414) 355-0400.

By Order of the Board of Directors

William R. A. Bergum,

Secretary

March 18, 2013

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE

SHAREHOLDER MEETING TO BE HELD ON APRIL 26, 2013

The notice of annual meeting, proxy statement, form of proxy card and our annual report on Form 10-K are

available at http://www.amstock.com/ProxyServices/ViewMaterials.asp

As an alternative to completing this form, you may enter your voting instructions by telephone at 1-800-PROXIES, or via the Internet at www.voteproxy.com and follow the simple instructions. Use the Company Number and Account Number shown on your proxy card. If you vote your proxy by Internet or by telephone, please do not mail back the proxy card.

PROXY

2013 ANNUAL MEETING OF SHAREHOLDERS

BADGER METER, INC.

The undersigned hereby appoints Richard A. Meeusen, Richard E. Johnson and William R. A. Bergum, or any of them, as proxies for the undersigned at the Annual Meeting of Shareholders of Badger Meter, Inc. to be held at the Milwaukee Club, 706 North Jefferson Street, Milwaukee, Wisconsin 53202, on Friday, April 26, 2013, at 8:30 a.m., local time, to vote the shares of stock which the undersigned is entitled to vote at said Meeting or any adjournment or postponement thereof, hereby revoking any other Proxy executed by the undersigned for such Meeting. The undersigned acknowledges receipt of the Notice of Annual Meeting of Shareholders and the Proxy Statement.

This Proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, the Proxy will be voted FOR each nominee identified in Proposal 1 and FOR Proposals 2 and 3. This Proxy is being solicited on behalf of the Board of Directors.**

COMPLETE AND SIGN BELOW. DETACH AND RETURN USING THE ENVELOPE PROVIDED.

The Board of Directors recommends a vote FOR each nominee identified in Proposal 1 and FOR Proposals 2 and 3.

BADGER METER, INC. 2013 ANNUAL MEETING

1. ELECTION OF DIRECTORS:

ONE-YEAR TERM:	**1 Ronald H. Dix**	**2 Thomas J. Fischer**	**3 Gale E. Klappa**
	4 Gail A. Lione	**5 Richard A. Meeusen**	**6 Andrew J. Policano**
	7 Steven J. Smith	**8 Todd J. Teske**	

¨ **FOR ALL NOMINEES** ¨ **WITHHOLD AUTHORITY FOR ALL NOMINEES** ¨ **FOR ALL EXCEPT** (See instructions below)

(INSTRUCTION: To withhold authority to vote for a nominee, write the nominee s name in the space provided below.)

2. ADVISORY VOTE TO APPROVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

¨ **FOR** ¨ **AGAINST** ¨ **ABSTAIN**

3. RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP as independent registered public accountants for 2013.

¨ **FOR** ¨ **AGAINST** ¨ **ABSTAIN**

4. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Meeting or any adjournment or postponement thereof.

Dated _______________, 2013

Please sign exactly as your name appears on your stock certificate as shown directly to the left. Joint owners should each sign personally. A corporation should sign in full corporate name by duly authorized officers. When signing as attorney, executor, administrator, trustee or guardian, give full title as such.