

2006 Annual Report

BadgerMeter, Inc.



building
strong



connections





Building Strong Connections

Badger Meter has become a leader in flow measurement by building strong connections through technology, alliances, customer relationships and commitment to our shareholders. These strong connections are the platform for our future growth—the springboard for increasing market share, improving financial performance and enhancing long-term shareholder value.

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financial highlights

Recent investments in new equipment include a fully automated test stand that checks the accuracy of the company's large turbo and compound meters prior to shipment. The new test stand triples the company's previous large-meter testing capacity and also provides faster changeovers, added flexibility and increased ease of operation.

December 31,	2006	2005	% Change
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Operations

(dollars in thousands)

Net sales	\$229,754	\$203,637	12.8
Earnings from continuing operations	\$ 16,568	\$ 16,164	2.5
Loss from discontinued operations	\$ (9,020)	\$ (2,911)	209.9
Net earnings	\$ 7,548	\$ 13,253	(43.0)

Diluted Earnings Per Common Share

from continuing operations	\$ 1.15	\$ 1.15	—
from discontinued operations	\$ (0.63)	\$ (0.20)	215.0
Total diluted	\$ 0.52	\$ 0.95	(45.3)
Cash dividends	\$ 0.31	\$ 0.29	6.9
Net book value	\$ 5.07	\$ 5.36	(5.4)

Year-End Financial Position

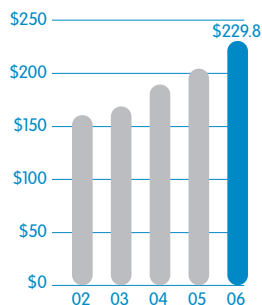
(dollars in thousands)

Total assets	\$139,383	\$145,867	(4.4)
Total debt (long-term and short-term)	\$ 22,965	\$ 28,688	(20.0)
Shareholders' equity	\$ 71,819	\$ 73,416	(2.2)
Debt as a percent of total debt and equity including debt			
from discontinued operations	26.8%	30.1%	(11.0)
Earnings from continuing operations as a percent of equity	23.1%	22.0%	5.0

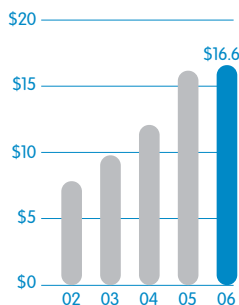
Other

Number of employees	1,113	1,008	10.4
Number of shareholders:			
in employee plans	581	572	1.6
of record	632	590	7.1
Shares outstanding at December 31	14,154,108	13,696,298	3.3

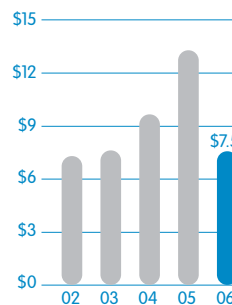
Net Sales
(in millions)



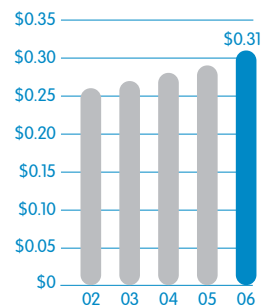
Earnings from Continuing Operations
(in millions)



Net Earnings
(in millions)



Dividends Per Share





Richard A. Meeusen, chairman, president and chief executive officer (center), with executive committee members Richard E. Johnson, senior vice president-finance, chief financial officer and treasurer (left) and Ronald H. Dix, senior vice president-administration.

Dear Shareholders,

My nephews are experts at building connections. They recently received a toy construction set, consisting of plastic poles and tubes. According to the illustration on the box, it could be used to build anything from the Sears Tower to a nuclear accelerator. In reality, it contains just enough parts to construct a one-armed stick man. Being typical boys, they have augmented the contents with an assortment of string, paper clips and hair curlers, enabling them to build complex structures that link together common household items, such as lamps, shoes and the family dog.

I am not only amazed by these creative constructs, but I also find that they remind me of the complex connections that Badger Meter has built over the past several years. However, instead of using toys, string and clips, we have used our brand name, innovative technologies and strategic initiatives to connect together a series of alliances, customer relationships and new products, all designed to build shareholder value.

During 2006, we were able to strengthen many of our existing connections, build several new connections, and even eliminate some unsuccessful connections. It was a year of both successes and challenges, but one that enables us to enter 2007 with financial strength and strategic focus.

THE FINANCIAL CONNECTION

In 2006, we achieved record sales of \$229.8 million, a 12.8% increase over 2005, due in large part to the continuing success of our automatic meter reading (AMR) technologies. Earnings from continuing operations before income taxes were \$27.5 million, a 7.1% increase over 2005. Net earnings for 2006 were down 43.0% from 2005, due to charges related to the shutdown of our unprofitable French subsidiary. In spite of these charges, we continued to maintain a strong balance sheet, with a debt-to-capitalization ratio of 26.8% at year-end 2006. We generated strong cash flow from operations in 2006 of \$16.8 million, and increased our dividend for the 14th consecutive year, once again putting Badger Meter on Mergent Inc.'s "Dividend Achiever Index." For the fourth time, we were named by *Forbes* magazine as one of the "200 Best Small Companies in the U.S."

THE ORION® CONNECTION

As we have focused on building strong connections, the “star” of our connectivity strategy has been the ORION® AMR system. The key to this strategy is the ability of ORION to operate equally well as a drive-by system or in communicating with various public and private network technologies to provide meter reading information to the utility customer. Badger has established strategic alliances with numerous network providers, which will enable us to continue to grow ORION sales, along with sales of our own fixed-base AMR product, GALAXY®.

Badger continues to hold a unique position in the industry, with over 100 years of experience in flow measurement, the best AMR technologies in the market and alliances with many of the major companies that provide network solutions to municipalities.

THE FRENCH DISCONNECTION

In 2002, Badger Meter acquired MecaPlus Equipements of Nancy, France, which was our largest reseller of automotive fluid meters. Although MecaPlus was not profitable, we believed at the time that we could improve its operations and expand its sales outside of France. We were successful in increasing export sales, but the weaker French economy and competitive pressures prevented us from achieving profitability. As a result, in 2006 we made the decision to discontinue the MecaPlus operation.

After the shutdown is completed, our earnings will no longer be negatively impacted by the French losses, and we have the opportunity to continue to sell automotive fluid meters in Europe through alliances with other companies. While this decision impacted our short-term results, we believe it was the right strategic decision for the future of Badger Meter.

THE COPPER CONNECTION

In 2006, the cost of copper was directly connected to our financial performance. For many decades, the cost of copper was between \$0.50 and \$1.00 per pound. As China’s economy began to grow, its demand for copper also increased. In response, copper costs began

rising, reaching \$2.00 at the start of 2006, peaking at almost \$4.00 in May of 2006, and then settling at \$3.50 for the remainder of the year. Most of Badger’s meters are made with a copper alloy, the cost of which is directly impacted by copper costs. As a result, we saw a marked increase in our material costs during 2006.

In August of 2006, we implemented a price increase in response to the higher copper costs, as well as the increased cost of oil, plastic resin and other commodities. Although some of the increases were immediately effective, customers with long-term contracts will not see the impact until later in 2007 or even 2008. Most of our major competitors followed us with their own price increases and we have seen good market acceptance of the new prices.

In addition to the positive impact of these price increases on our margins, copper costs began to drop in the fourth quarter of 2006, reaching \$2.50 per pound by early January 2007. These reductions will take time to impact our cost of sales, but are expected to benefit our 2007 margins.

THE FUTURE CONNECTION

With the strength of the ORION product, lower copper costs and the elimination of the losses from the French operation, we look forward to a strong 2007 and beyond. Badger’s strategic initiatives and “strong connections” have positioned us to take advantage of the significant opportunities in the flow measurement market. This report highlights many of those strong connections, hopefully enabling you to better understand our business model and key growth strategies.

On behalf of the directors, officers and employees of Badger Meter, I want to thank our shareholders, customers and alliance partners for your continued support and confidence in the company.



Richard A. Meeusen
Chairman, President and Chief Executive Officer



technology

20-40%

Estimated reduction in water consumption achieved through metering, according to the U.S. Environmental Protection Agency.

1,350,000

Number of ORION® AMR units sold in just four years to more than 780 U.S. water utilities.



building strong connections— technology

Technology has always been one of Badger Meter's greatest strengths. Our technology leadership dates back to our founding in 1905, when two Milwaukee entrepreneurs developed the "frost proof" water meter design that is still used in the meters we manufacture today.

While meters remain our core competency, the real growth potential for Badger Meter lies in automatic meter reading (AMR). In just four years, our ORION® AMR system has captured significant market share and generated strong sales and margin growth. Suitable for both the smallest towns and the largest cities, what really sets ORION apart is its flexibility. ORION obtains meter readings using whatever technology the utility prefers, from driving down the street to transmitting meter data using power lines, public wireless networks and the latest municipal Wi-Fi systems.

On the industrial side of the business, our electromagnetic flowmeters and impeller meters also offer the latest technology in the market. Electromagnetic flowmeters help customers to efficiently and accurately measure the ingredients used in manufacturing products ranging from food and beverages to pharmaceuticals and chemicals, providing additional growth opportunities for Badger Meter. Impeller meters are used in fire-fighting apparatus, irrigation, and environmental heating, ventilating and air conditioning applications.

Our technology leadership is centered on an experienced and innovative product development team that anticipates customer needs and develops the technology to meet them. An example of our commitment to technology is our investment in building the largest and most advanced indoor flow lab in the country, used solely for research and new product development — another strong connection to our customers.

Badger Meter's investments in technology include the largest and most advanced flow lab in the country, used exclusively for research and new product development.

23.4 million

Number of installed residential
water AMR units in the U.S.

building strong connections— alliances

How can a company the size of Badger Meter successfully compete against much bigger companies with substantially larger research and development budgets? One answer is alliances.

Most of Badger Meter's competitors provide automatic meter reading systems for all three types of utilities: water, gas and electric. In contrast, we have never competed in the electric AMR market. This opens the door to exciting opportunities and new distribution channels through alliances with companies that want to use their electric AMR systems to also obtain readings from water and gas meters.

Our ability to interface with virtually all of the leading network options in the utility market today, without the extensive capital investment that would be required to develop each of these technologies on our own, is a significant competitive advantage for Badger Meter. If a customer wants to use technology from Distribution Control Systems, Inc. or Hunt Technologies, Inc. to obtain meter readings over electric power lines, our meters are compatible. In the fast-growing public wireless/municipal Wi-Fi area, we are an approved product provider for leading companies including Motorola, Cisco Systems, Sprint Nextel, SkyPilot™ Networks and Tropos Networks. Other alliance agreements include Current Communications Group, LLC for broadband over powerline and Tantalus Systems Corp. for wireless fixed-base radio-frequency AMR. The key to these relationships is the ORION® radio system, which transmits the data from the meter to all types of communication systems, and can be easily adapted to new technologies as they evolve.

Strong alliance relationships also have a role in new product development. Our highly successful ORION AMR system was developed in conjunction with Hydrometer GmbH of Germany. Our relationship with Sensus Metering Systems GmbH, also in Germany, has produced several generations of large meters for commercial applications — a successful long-term connection for both companies.

Strong alliances have an important role in Badger Meter's growth. Our highly successful ORION® AMR system is the result of an alliance with Hydrometer GmbH of Germany. Pictured are Daniel D. Zandron, vice president of business development for Badger Meter (left), and Claus Günther, president, affiliated companies of Diehl Stiftung & Co. KG., the parent company of Hydrometer.

9.2%

Estimated annual growth rate in automatic meter reading over the next five years, according to an independent market study.



The ORION® radio system transmits data from the meter to most types of AMR systems.

A photograph of two men in business suits sitting at a table. The man on the left, wearing a grey suit and glasses, is gesturing with his right hand while speaking. The man on the right, wearing a dark suit, glasses, and a yellow and blue striped tie, is holding a small electronic device in his hands and looking at it. On the table, there is a brass-colored mechanical component with a black top. The background is a solid green wall with two warm-toned pendant lamps hanging from the ceiling.

alliances

\$10 billion

Estimated market for municipal
Wi-Fi systems by 2010.

A photograph of a city skyline at sunset, with buildings silhouetted against a vibrant orange and purple sky. The water in the foreground reflects the colors of the sky. The word "customers" is overlaid in large white text.

customers

55,071

Number of water utilities in the United States.

75 million

Estimated number of water meters installed
by utilities in North America.



building strong connections— customers

With more than a century of flow measurement expertise behind us, Badger Meter's reputation is well known and highly respected in the marketplace. Our very first customer, the city of Milwaukee, continues to be a customer today, along with many other long-term customers. Over two-thirds of the meters we sell each year are replacement meters, an indication of our stable, and satisfied, customer base.

On top of that, the opportunities generated by new metering systems continue to grow. Water utilities in cities that were unmetered in the past are installing water meters to encourage conservation. Other utilities are moving to automatic meter reading to increase revenues and lower operating costs. As they investigate new technologies, customers are increasingly relying on Badger Meter to provide a complete metering solution that meets their needs. We are well positioned with the ORION® AMR system and its ability to interface with a broad range of meter reading technologies and providers.

ORION is increasing market share not only because of its many benefits, but also because it is a Badger Meter product. Our roots have always been, and continue to be, in producing water meters that have the highest level of accuracy in the market. Regardless of the meter-reading system a utility selects, it still needs the water meter. And while various types of automatic meter reading technologies and companies have come and gone over the past 20 years, the quality of our products and commitment to our customers have not changed. In fact, our proven success in automatic meter reading has strengthened existing customer relationships and fostered many new ones.

Whether it's individual water meters, or a complete metering system that interfaces with the latest public wireless or municipal Wi-Fi technology, our strong customer relationships are built on a successful combination of technology, products and service.

Badger Meter's relationship with the city of Milwaukee dates back to our founding in 1905. Milwaukee was our first customer, and continues to be a customer today, illustrating the benefits of our long-standing commitment to technology, products and service.

28%

Badger Meter's share of the
U.S. water-meter market.

building strong connections—shareholders

Just as Badger Meter has a reputation for leadership in the marketplace, we are also a leader in building shareholder value. Our philosophy is to manage for the long term. That means we make investments that we believe will facilitate our future growth and increase shareholder value, even if they do not generate immediate results.

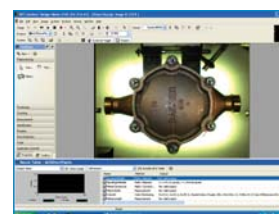
This philosophy has resulted in the solid performance that builds strong connections with shareholders. For example, in 2006:

- Badger Meter was named one of the 200 “Best Small Companies” by *Forbes* magazine — for the fourth time.
- The quarterly dividend increased for the 14th consecutive year, once again putting us on Mergent Inc.’s “Dividend Achiever Index.”
- Return on shareholders’ equity from continuing operations was 23.1%.
- We generated \$16.8 million in cash flow.
- \$5.5 million was invested in research and development.

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Capital expenditures increased 21.7% to \$11.1 million in 2006, as we invested in both new manufacturing equipment and facilities. We added new robotic manufacturing equipment at our Milwaukee plant and added a facility in Nogales, Mexico, to improve productivity and reduce costs. The second phase of the Nogales expansion will begin in 2007. Also in 2007, we will move into a new facility in Stuttgart, Germany. These investments will enable us to remain a strong competitor in a global marketplace.

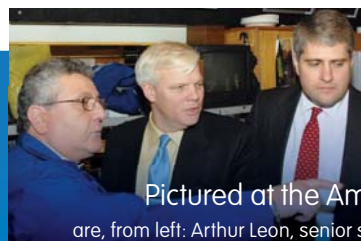
As a result of our long-term strategies, the price of Badger Meter common stock has increased more than 500% over the past five years. This solid return on investment provides a strong connection for our shareholders.



Our focus on managing for the long term includes continually investing in new technology and equipment to improve quality and efficiency. This robotic testing system checks meter housings for leaks using blasts of air. The camera “sees” the size of the meter being tested and the equipment automatically calibrates the amount of air needed for the test.

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Consecutive years of dividend increases.



Pictured at the American Stock Exchange are, from left: Arthur Leon, senior specialist, Cohen Specialists, LLC; Richard A. Meeusen, chairman, president and CEO of Badger Meter; and Jeffrey S. Lewent, managing director of issuer services, American Stock Exchange.



shareholders

21.7%

Increase in capital expenditures in 2006.

39%

Average annual total return to shareholders over the past five years, on a dividend reinvested basis.

product profiles

Utility Market

RESIDENTIAL WATER METERS

Residential water meters provide optimum revenue generation by measuring end-user consumption. Badger Meter's Recordall® residential disc meters provide the highest level of accuracy in the industry.



COMMERCIAL WATER METERS

Commercial water meters provide optimal revenue generation for utilities from their commercial customers. Products include Recordall large disc, turbo and compound meters, Magnetoflow® meters and Recordall fire service meters and assemblies.



AUTOMATIC METER READING (AMR) TECHNOLOGIES

Badger Meter's Recordall Transmitter Register (RTR®) and Absolute Digital Encoder (ADE®) provide digital connectivity to both established and emerging network technologies including power line carrier (PLC), broadband over power line (BPL), municipal Wi-Fi and radio frequency systems (drive-by and fixed-based). Badger Meter offers a variety of AMR systems including ORION®, GALAXY® and Itron®.



Industrial Market

AUTOMOTIVE FLUID METERS

Automotive fluid meters measure and dispense automotive fluids such as oil, grease and transmission fluids.



SMALL PRECISION VALVES

Small precision valves control the fluids in a wide range of applications including medical research, pharmaceutical production, food and beverage, petroleum, and heating ventilating and air conditioning.



ELECTROMAGNETIC FLOWMETERS

Magnetoflow meters measure a large variety of fluids in industries including food and beverage, pharmaceutical, chemical and mining. Flexibility in materials and installation methods make these meters suitable for a wide range of applications.



OTHER INDUSTRIAL METERS

Oscillating piston meters and oval gear meters handle most fluids regardless of viscosity. Concrete meters and dispensing systems measure and add chemicals in the production of concrete. Impeller flow sensors measure in-pipe liquid flow.



corporate profile

Badger Meter is a leading marketer and manufacturer of flow measurement and control technology, developed both internally and with other companies, as well as the leader in providing digital connectivity to leading automatic meter reading technologies. The company's products are used to measure and control the flow of liquids in a variety of applications.

board of directors

Richard A. Meeusen
*Chairman, President and Chief
Executive Officer, Badger Meter, Inc.*

Ronald H. Dix
*Senior Vice President –
Administration, Badger Meter, Inc.*

Thomas J. Fischer (1, 3)
*Principal, Fischer Financial
Consulting LLC; Retired Managing
Partner, Arthur Andersen*

Kenneth P. Manning (1, 2)
*Chairman, President and
Chief Executive Officer, Sensient
Technologies Corporation*

Ulise Payne, Jr. (1, 2)
President, Addison-Clifton LLC

Andrew J. Policano (2, 3)
*Dean, Paul Merage School of Business,
University of California - Irvine*

Steven J. Smith (1, 3)
*Chairman and Chief Executive Officer,
Journal Communications, Inc.*

John J. Stollenwerk (2, 3)
*Chairman, Allen-Edmonds
Shoe Corporation*

Director Emeritus

James O. Wright
Retired Chairman, Badger Meter, Inc.

Committees of the Board
1. Audit and Compliance
2. Corporate Governance
3. Employee Benefit Plans

executive officers

Richard A. Meeusen
*Chairman, President and
Chief Executive Officer*

Ronald H. Dix
*Senior Vice President –
Administration*

Richard E. Johnson
*Senior Vice President – Finance,
Chief Financial Officer and Treasurer*

William R. Bergum
*Vice President – General Counsel
and Secretary*

Bryan L. Cieslak
Vice President – Operations

Horst E. Gras
*Vice President – International
Operations*

Beverly L. Smiley
Vice President – Controller

Dennis J. Webb
*Vice President – Sales, Marketing
and Engineering*

Daniel D. Zandron
*Vice President – Business
Development*

corporate information

Badger Meter, Inc., Headquarters

4545 W. Brown Deer Road
P.O. Box 245036
Milwaukee, Wisconsin 53224-9536
(414) 355-0400
www.badgermeter.com

Domestic Facilities

Milwaukee, Wisconsin
Tulsa, Oklahoma

Foreign Facilities

Stuttgart, Germany
Nogales, Mexico
Brno, Czech Republic

Form 10-K Report/Shareholder Information

A copy of the company's fiscal 2006 Form 10-K annual report (without exhibits) as filed with the Securities and Exchange Commission is included in this report. Shareholder information, including news releases and Form 10-K, is available on the company's website: www.badgermeter.com. Shareholders who hold their stock in nominee or "street" name can receive shareholder information directly from the company by being placed on our mailing list. Please direct inquiries to: Shareholder Relations, Badger Meter, Inc., P.O. Box 245036, Milwaukee, WI 53224-9536 or email: jjimmer@badgermeter.com.

Automatic Dividend Reinvestment and Stock Purchase Plan

Badger Meter's Dividend Reinvestment and Stock Purchase Plan is a convenient way to acquire shares of company stock. To receive a prospectus describing the plan and an enrollment card, please contact our plan administrator, American Stock Transfer, at (800) 937-5449, or visit their website at: www.investpower.com. If your stock certificate is lost, stolen or destroyed, or if you change your address or lose a dividend check, please call American Stock Transfer, (800) 937-5449.

Independent Registered Public Accounting Firm

Ernst & Young LLP, Milwaukee, Wisconsin

Transfer Agent

American Stock Transfer, New York, New York
(800) 937-5449
www.amstock.com

Listing of Common Stock

American Stock Exchange, Symbol—BMI



Annual Meeting

Shareholders are encouraged to attend the 2007 annual meeting at 8:30 a.m. on Friday, April 27, 2007, at Badger Meter, Inc., 4545 W. Brown Deer Road, Milwaukee, Wisconsin.

Forward Looking Statements

Certain statements contained in this document, as well as other information provided from time to time by 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. Please see page one of the enclosed Form 10-K for a list of words or expressions that identify such statements.

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BadgerMeter, Inc.



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