



Tapping into Opportunities

2007 Annual Report

BadgerMeter, Inc.





As we begin to feel the effects of increased demand for water, coupled with scarcity issues in many American cities, [conservation has become an issue of paramount concern](#). More and more municipalities are turning to water metering as an effective solution for managing water use. As a provider of automatic meter reading (AMR) and advanced metering infrastructure (AMI) systems,

Badger Meter is tapping into opportunities in the growing water market.

FINANCIAL HIGHLIGHTS

December 31,	2007	2006	% Change
Operations			
<i>(dollars in thousands)</i>			
Net sales	\$ 234,816	\$ 229,754	2.2
Earnings from continuing operations	\$ 18,386	\$ 16,568	11.0
Loss from discontinued operations	\$ (1,929)	\$ (9,020)	n/a
Net earnings	\$ 16,457	\$ 7,548	118.0
Diluted Earnings Per Common Share			
from continuing operations	\$ 1.26	\$ 1.15	9.6
from discontinued operations	\$ (0.13)	\$ (0.63)	n/a
Total diluted	\$ 1.13	\$ 0.52	117.3
Cash dividends	\$ 0.34	\$ 0.31	9.7
Net book value	\$ 6.33	\$ 5.07	24.9
Year-End Financial Position			
<i>(dollars in thousands)</i>			
Total assets	\$ 150,301	\$ 139,383	7.8
Total debt (long-term and short-term)	\$ 16,711	\$ 22,965	(27.2)
Shareholders' equity	\$ 91,969	\$ 71,819	28.1
Debt as a percent of total debt and equity			
including debt from discontinued operations	15.4%	26.8%	(42.5)
Earnings from continuing operations			
as a percent of equity	20.0%	23.1%	(13.4)
Other			
Number of employees	1,132	1,113	1.7
Number of shareholders:			
in employee plans	554	581	(4.6)
of record	631	632	(0.2)
Shares outstanding at December 31	14,518,546	14,154,108	2.6

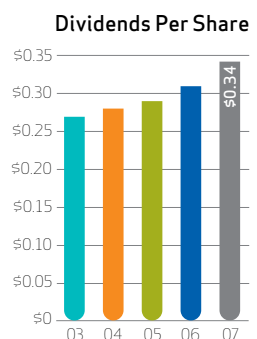
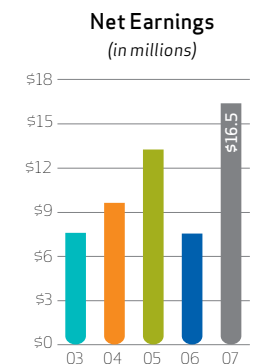
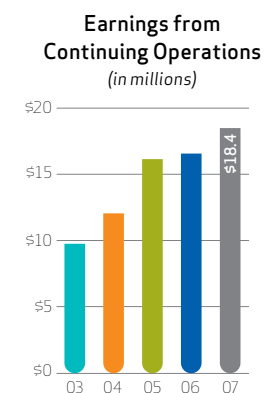
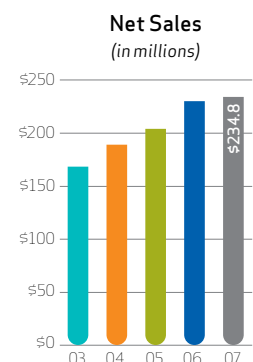


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DEAR SHAREHOLDERS,

I grew up in Milwaukee, a few miles from Lake Michigan, which is part of the Great Lakes and the largest source of fresh water on Earth. So it was understandable that as a child, I never thought much about water, other than as ammunition for a summer's day water-fight or as the perfect landing platform for a classic cannonball splash at the neighborhood public pool. Water seemed to be everywhere. It was cheap and plentiful.

Today, water is still relatively cheap. In the United States, we pay an average of \$2.50 for 1,000 gallons of water, compared to over \$8 in Europe. But this low cost masks a major worldwide problem — water shortages. One out of five people in the world do not have access to safe, clean water. Even in the U.S., droughts have become a major concern in both the Southwest and, more recently, the Southeast. Cities across the country are looking for new ways to conserve this most valuable resource.

One answer is metering. History has shown us that when people pay for the water they use, consumption can drop as much as 30%. However, only two out of every three houses in the United States have meters installed. Many of the unmetered houses obtain their water from private wells. But there are approximately 13 million unmetered homes in the U.S. with municipal water that pay a flat monthly or quarterly fee for their water service. In addition, more than 70% of the meters installed in the U.S. are still being read manually. This combination of unmetered houses and manually-read meters represents \$8.5 billion in potential meter and technology sales. Badger Meter is well positioned to tap into this significant opportunity.

In fact, "Tapping into Opportunities" accurately describes our focus at Badger Meter. In this annual report, you will read not only about our opportunities in the water industry, but also our financial, technology and market opportunities. But first, I would like to comment on our 2007 results and my perspective on the many opportunities ahead for Badger Meter.

Richard A. Meeusen
Chairman, President and Chief Executive Officer

Financial Results

We once again had a record year, with 2007 sales of \$234.8 million and earnings from continuing operations of \$18.4 million, an 11% increase over 2006. We followed a weaker 2007 first quarter with three record quarters to end the year in a very strong position. These results were driven by the continuing success of both our basic metering technologies and our advanced meter reading systems.

We have a strong balance sheet and we were proud to be able to increase our dividend for the fifteenth consecutive year. Our focus on market opportunities, combined with solid financial management, has allowed us to tap into a strong and steady flow of positive financial results.

Metering Technologies

Our broad product line is also a strong contributor to our performance. We offer our customers the best line of water meters in the market today, as well as the best metering technologies for both water and gas meters. In 2007, we introduced the GALAXY® advanced metering infrastructure (AMI) system for the harsh pit environment, using the same reliable packaging that we have used for our very successful ORION® automatic meter reading (AMR) product. We also introduced a full line of ORION AMR radios for gas meters.

Now, customers that want to read their meters from vehicles (drive-by) can use our award-winning ORION AMR system. Customers that prefer using a dedicated fixed network can select our GALAXY AMI system. Many customers recognize the benefits of both systems, and may select a hybrid approach; using ORION for the majority of their system and using GALAXY for large industrial users or for areas with difficult access, such as gated communities, airports and military bases. As a fourth option, many customers have selected ORION or GALAXY with connection to existing network systems through our many connectivity partners. All of these choices make Badger Meter the preferred source for meter reading systems.

Tapping into Opportunities

In addition to the significant potential in the utility metering markets, we are also excited about our ability to tap into opportunities in our industrial markets. Our industrial products, while only 20.8% of total sales, generate solid performance and enhance our shareholder value. Key

products, including electromagnetic flowmeters, valves and impeller meters, continue to drive sales in these smaller, niche markets. We have been able to apply not only our flow measurement knowledge, but also our radio technologies, to our impeller and automotive fluid meter lines to provide our customers with a wide range of metering choices.

Our international sales consist primarily of utility meters sold in Mexico and industrial products sold in Europe, Asia and the Middle East. Although they represent only 11.6% of total sales, international revenues increased 28.8% this year, driven by a combination of higher volumes and exchange-rate impacts. Through our highly-skilled international team located in Stuttgart, Germany, we continue to find success in providing flow solutions to customers around the world who value the Badger Meter brand and quality.

The expansion of our facilities in Nogales, Mexico, also continues on plan. By the end of 2008, we will have completed and moved into our new 120,000 square foot plant. This plant will replace a 60,000 square foot leased facility in the same area and provide us with both cost-reduction opportunities and much-needed space to support our growth.

The Future

Building on our great 2007 results, we have entered 2008 with a strong backlog and a solid pipeline of new products and product enhancements. The Badger Meter name continues to represent superior quality, service and technology in the flow measurement markets, and we intend to grow and strengthen our brand into the future. We believe we are well positioned to tap into the significant opportunities in water metering, AMR/AMI technology and other flow measurement and control markets to drive our continued growth over the long term.

Today more than ever, I appreciate all of that bountiful water that I took for granted as a child. As a leader in the water industry, Badger Meter is proud to be a great company located on a Great Lake.



Richard A. Meeusen
Chairman, President and Chief Executive Officer

TAPPING INTO WATER INDUSTRY OPPORTUNITIES

Water is one of the fundamental elements on the planet. Most of us expect that when we turn on the tap, clean, safe water will flow into our glass. Consumption levels show just how much we love our water — the average American uses more than 100 gallons of water each day!

But today, we can no longer take the availability of unlimited fresh water for granted. Our increasing demand for water and a growing population are colliding with the reality of water scarcity due to weather patterns and aging municipal water infrastructures in many American cities. Major drought conditions in many parts of the U.S. have resulted in water restrictions for numerous cities. In response to these trends, municipalities and governments are increasingly focusing on water conservation.

Today, there are approximately 13 million U.S. residences that have municipal water service, but are unmetered and billed on a flat-rate basis. When water usage is monitored and residents pay only for the water they use, consumption invariably goes down. That's where Badger Meter comes in. For over 100 years, Badger Meter has produced a wide range

of water meters with the highest level of accuracy in the industry. Today, we offer a complete line of brass and plastic meters for all municipal water applications.

We have also developed an innovative portfolio of industry-leading automatic meter reading (AMR) and advanced metering infrastructure (AMI) systems that meet the needs of water utilities in major cities, small towns and rural areas. Our meters and metering systems interface with most of the leading AMR/AMI technologies in the market through our "connectivity" solutions. Whether a utility prefers reading meters by driving down the street, transmitting the data using power lines, public wireless networks, their own network or the latest municipal Wi-Fi system, Badger Meter has the right product for their application.

As more and more utilities turn to automatic meter reading as a viable and cost-effective water-management solution, Badger Meter is well positioned to tap into these opportunities.

"All the water that will ever be is, right now."

— NATIONAL GEOGRAPHIC, 1993

U.S. Geological Survey



projections show **35** of the 50 states **will face**
water shortages over the next five years.

A three-year, **\$39.8 million**
contract to provide and install **162,000**
ORION® AMR units on new and
existing water meters in the city
of Chicago is currently underway.



TAPPING INTO MARKET OPPORTUNITIES

Water meters have been around for a long time. In fact, our first water meter was developed more than 100 years ago. But just as our founders tapped into the need for a “frost-proof” meter that could be used in cold climates, today Badger Meter is successfully tapping into opportunities driven by the long-term growth potential of automatic meter reading.

The American Water Works Association estimates there are approximately 68 million residences and seven million commercial and industrial facilities in the U.S. that have water meters. Of that, less than 30% have been converted to AMR or AMI. The potential conversion of the remaining water meters, which are being read manually, represents an estimated \$6.5 billion market opportunity. Combined with the potential to install meters in the 13 million unmetered residences in the U.S., there is a total market opportunity of approximately \$8.5 billion. This is in addition to the AMR growth created by new construction and ongoing meter and technology replacements.

Badger Meter currently has about 27% of the installed U.S. AMR/AMI water market — the largest share of any company. We built this strong position by being the first in the business with a radio-frequency AMR product, through our connectivity strategy and by continually developing new technologies and products.

A November 2007 *Chartwell Report* indicated that the percentage of utilities planning near-future AMR installations doubled from 9% in 2006 to 18% in 2007. Together, ORION®, GALAXY® and our digital connectivity products put us in a strong position to leverage the growth potential of this market into increased sales and profitability for Badger Meter.

“When the well is dry, they know the worth of water.”

— BENJAMIN FRANKLIN, 1746



Less than 30% of the water meters in the U.S.
to automatic meter reading, providing growth
market that is estimated to be **approximately**





have been converted
opportunities in a
\$6.5 billion.

TAPPING INTO TECHNOLOGY OPPORTUNITIES

Customers have always counted on us to develop the products they need to capture information to generate revenues accurately and efficiently. With the increasing attention on fresh, clean water as a valuable natural resource and the growing focus on conservation, enabling our customers to accurately measure water usage is more important today than ever before. Tapping into these opportunities, we've developed innovative new products that combine global technology trends with meter reading.

ORION®, our highly-successful meter reading system, operates equally well as an AMR drive-by system or as an AMI system in communicating with various public and private network technologies. With over two million units installed, ORION has been selected by more than 1,000 municipalities across the country, from small utilities with just a few hundred meters to one of our latest contracts, a three-year program to provide and install 162,000 ORION modules in the city of Chicago. Expanding on its success in the water meter market, ORION has also been adapted for use on gas meters — another new AMR market opportunity for Badger Meter.

Our GALAXY® fixed-base network system taps into opportunities in the emerging advanced metering infrastructure (AMI) market. In the electric industry, AMI often refers to two-way metering

systems that enable the electric utility to gather significant load management data, but most of these features are not applicable to the water industry. In our business, we use AMI to refer to fixed-base systems like our newest product, GALAXY, which uses high-powered radio transmitters to bring the meter information to the utility whenever the utility wants it — even daily or hourly.

Another new product that responds to a need in the market is the Recordall® Lo-Profile (LP) disc meter. Developed for installations where space is limited, this new meter provides the same accuracy and performance as our standard meters, but in a smaller package. The LP also uses one-third less metal than our standard residential meter. Both the LP and our line of plastic meters are the answer for customers concerned about the volatility of metal prices.

Tapping into market potential with innovative technologies has been the secret to our success for more than 100 years. As these examples illustrate, our commitment to technological innovation is now stronger than ever.

"The noblest of the elements is water."

— PINDAR, 476 BC

TAPPING INTO FINANCIAL OPPORTUNITIES

The opportunities discussed in this report, in the water industry, in AMR/AMI and in technology, provide another opportunity of their own — the opportunity to improve financial performance and build shareholder value.

For many investors, financial opportunities mean increased sales and earnings. We performed well from this viewpoint in 2007, with record sales of \$234.8 million and a 9.6% increase in diluted earnings per share from continuing operations.

But because we manage for the long term, financial opportunities at Badger Meter are also measured in other ways. One is the investments we make in our future. Capital expenditures increased 44.4% in 2007 due to facility expansions, while investments in research and development increased 4.7%. Over the past five years, we've invested more than \$27.2 million in new products and product enhancements to position Badger Meter for a strong future.

We have a long history of consistently investing in R&D, manufacturing systems and processes, and sales and marketing, both in good years and in challenging years.

These investments are the fuel that drive our industry leadership and enable us to pursue exciting growth opportunities in our markets. These investments have resulted in products that resonate with customers, such as ORION®, GALAXY®, the Lo-Profile meter, our successful electromagnetic flowmeters and others.

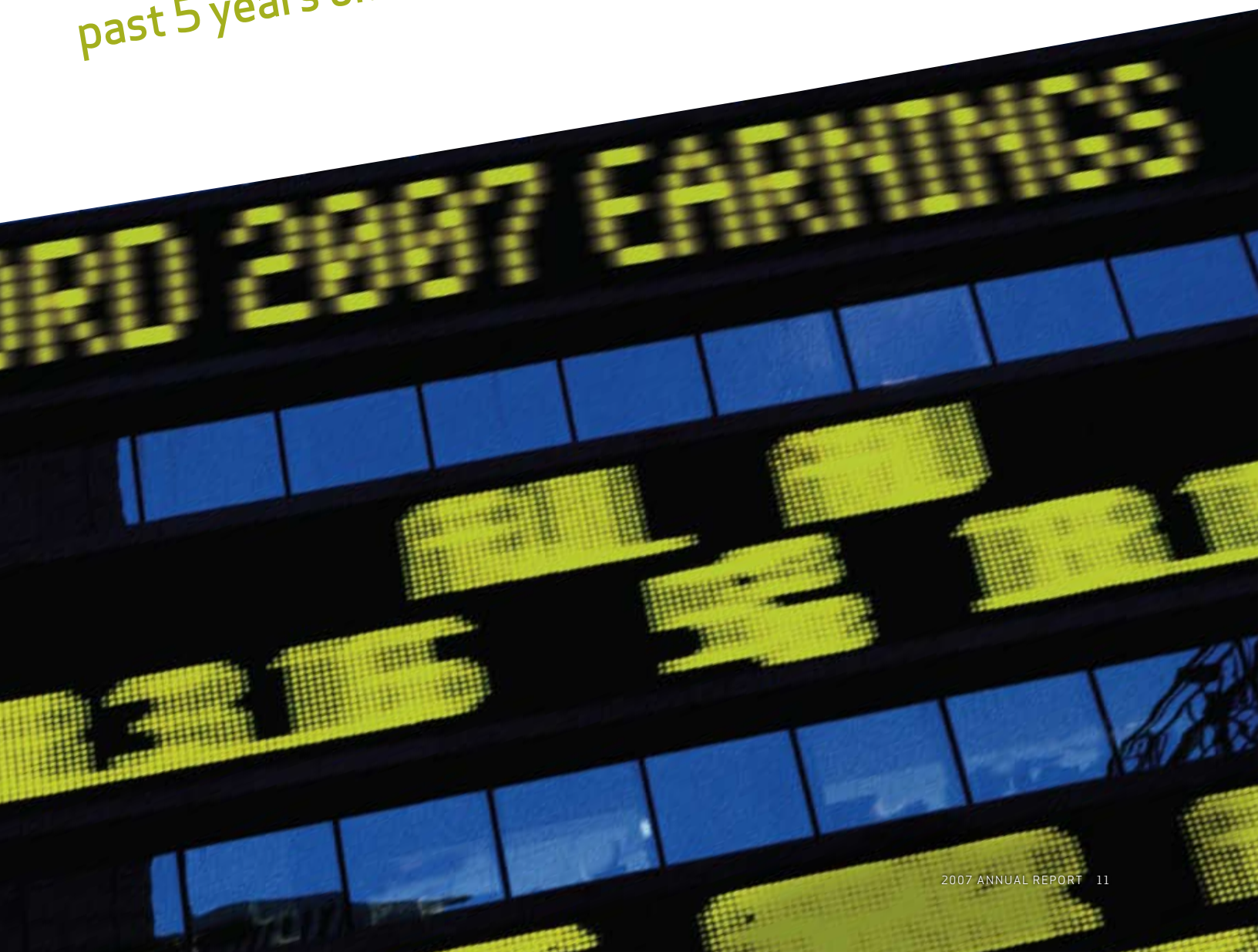
Our strong corporate growth also provides positive financial opportunities for our shareholders. In 2007, we increased the dividend for the fifteenth consecutive year. Our return on shareholders' equity from continuing operations was 20.0% in 2007. We generated \$28.3 million in cash flow from operations. And our average annual total return to shareholders over the past five years on a dividend reinvested basis was 43.8%.

Together, these strong numbers show the dramatic impact — and future potential — tapping into opportunities can have on our employees, customers, communities — and shareholders.

"We think of our land and water and human resources not as static and sterile possessions, but as lifegiving assets to be directed by wise provisions for future days."

— FRANKLIN D. ROOSEVELT, 1935

Our average annual **total return** to shareholders over the past 5 years on a dividend reinvested basis was **43.8%**.



CORPORATE PROFILE

Badger Meter is a leading marketer and manufacturer of flow measurement and control technologies, developed both internally and in conjunction 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.

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, electromagnetic flowmeters and Recordall fire service meters and assemblies.



AMR/AMI Meter Reading 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 and AMI 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 for irrigation and building automation applications.



DEFINING AMR/AMI IN THE WATER INDUSTRY

Automatic meter reading (AMR)

AMR systems, such as Badger Meter's ORION radio frequency product and the Itron AMR system, transmit water usage data by simply driving down the street.

Advanced metering infrastructure (AMI)

In the water business, AMI refers to fixed-base systems. These include Badger Meter's newest product, GALAXY, which uses its own network of high-powered transmitters to provide meter information to utilities as needed, and the ORION radio frequency product, which provides connectivity to power line, public wireless and municipal Wi-Fi networks. This differs from the electric industry, where AMI often refers to two-way metering systems that enable utilities to gather load management data.

BOARD OF DIRECTORS

Richard A. Meeusen

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Ronald H. Dix

Senior Vice President – Administration, Badger Meter, Inc.

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Principal, Fischer Financial Consulting LLC; Retired Managing Partner, Arthur Andersen

Kenneth P. Manning (1, 2)

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1. Audit and Compliance
2. Corporate Governance
3. Employee Benefit Plans

EXECUTIVE OFFICERS

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Daniel D. Zandron

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CORPORATE INFORMATION

Badger Meter, Inc. Headquarters

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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

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 2008 annual meeting at 8:30 a.m. on Friday, April 25, 2008, at Badger Meter, Inc., 4545 W. Brown Deer Road, Milwaukee, Wisconsin.

Form 10-K Report/Shareholder Information

A copy of the company's fiscal 2007 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, are available on the company's Web site: 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 e-mail: jzimmer@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 Web site: 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 at (800) 937-5449.

Direct Registration System

Shareholders of Badger Meter common stock can now hold their shares in uncertificated/book entry form at the Transfer Agent. Current shareholders who wish to transfer their existing shares to Direct Registration should mail their stock certificates to American Stock Transfer per the instructions on their Web site: www.amstock.com. For more information, please call American Stock Transfer at (800) 937-5449.

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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Badger Meter, Inc.



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