BADGER METER INC
Form DEF 14A
March 21, 2008

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

Badger Meter, Inc.
(Name of Registrant as Specified in its Charter)
(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

BADGER METER, INC.
4545 West Brown Deer Road
Milwaukee, Wisconsin 53223

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 25, 2008

The Annual Meeting of the shareholders of Badger Meter, Inc. will be held at **Badger Meter, Inc.,** 4545 West Brown Deer Road, Milwaukee, Wisconsin 53223, on Friday, April 25, 2008, at 8:30 a.m., local time, for the following purposes:

1. To elect three directors to three-year terms;

2. To consider approval of the Badger Meter, Inc. 2008 Restricted Stock Plan;

3. To approve an amendment to our Restated Articles of Incorporation to declassify the Board of Directors; and

4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Holders of record of our common stock at the close of business on February 29, 2008, are entitled to notice of and to vote at the meeting and any adjournments or postponements thereof. Shareholders are entitled to one vote per share.

Please vote the enclosed proxy form, sign and return it in the envelope provided. You retain the right to revoke the proxy at any time before it is actually voted.

By Order of the Board of Directors

William R. A. Bergum,
Secretary

March 25, 2008

BADGER METER, INC.
4545 West Brown Deer Road
Milwaukee, Wisconsin 53223

PROXY STATEMENT

To the Shareholders of

BADGER METER, INC.

We are furnishing you with this Proxy Statement in connection with the solicitation of proxies by the Board of Directors of Badger Meter, Inc. to be used at our Annual Meeting of Shareholders (referred to as the annual meeting), which will be held at 8:30 a.m., local time, on Friday, April 25, 2008, at Badger Meter, Inc., 4545 West Brown Deer Road, Milwaukee, Wisconsin 53223, and at any adjournments or postponements thereof.

If you execute a proxy, you retain the right to revoke it at any time before it is voted by giving written notice to us or in open meeting, or by submitting a valid proxy bearing a later date. Unless you revoke your proxy, your shares will be voted at the annual meeting.

Since you were a shareholder of record as of the close of business on February 29, 2008, you are entitled to notice of, and to vote at, the annual meeting. As of the record date, we had 14,540,021 shares of common stock outstanding and entitled to vote. You are entitled to one vote for each of your shares.

We commenced mailing this Proxy Statement on or about March 25, 2008.

NOMINATION AND ELECTION OF DIRECTORS

You and other holders of the common stock are entitled to elect three directors at the annual meeting. Directors will be elected by a plurality of votes cast at the annual meeting (assuming a quorum is present). If you do not vote your shares at the annual meeting, whether due to abstentions, broker nonvotes or otherwise, and a quorum is present, they will have no impact on the election of directors.

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 election of each of the three nominees for director identified below. If your shares are held in street name by your broker, your broker may vote your shares in its discretion on the election of directors if you do not furnish instructions. Once elected, a director currently serves for a three-year term or until his successor has been duly appointed, or until his death, resignation or removal. However, if the proposal relating to declassification of our Board of Directors is approved, then beginning at the 2009 Annual Meeting of Shareholders all directors will be elected annually to one-year terms.

The nominees of the Board of Directors for director, together with certain additional information concerning each such nominee, are identified below. All of the nominees are current directors of our company. If any nominee is unable or unwilling to serve, the named proxies have discretionary authority to select and vote for substitute nominees. The Board of Directors has no reason to believe that any of the three nominees will be unable or unwilling to serve.

NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS
TERMS EXPIRING AT THE 2011 ANNUAL MEETING

Name	Age	Business Experience During Last Five Years	Director Since
Ronald H. Dix	63	Badger Meter, Inc.: Senior Vice President Administration. Formerly, Senior Vice President Administration and Secretary; Senior Vice President Administration/Human Resources and Secretary; and Vice President Administration/Human Resources.	2005
Thomas J. Fischer	60	Fischer Financial Consulting LLC (an accounting and financial consulting firm): Principal. Formerly, Arthur Andersen LLP Milwaukee Office: Retired Managing Partner.	2003
Richard A. Meeusen	53	Badger Meter, Inc.: Chairman, President and Chief Executive Officer. Formerly, President and Chief Executive Officer.	2001

The Board unanimously recommends that our shareholders vote FOR each nominee identified above.

The directors who are not up for election this year, together with certain additional information about each, are identified below:

MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE
TERMS EXPIRING AT THE 2009 ANNUAL MEETING

Name	Age	Business Experience During Last Five Years	Director Since
Ulice Payne, Jr.	52	Addison-Clifton LLC (an export consulting firm): President. Formerly, Milwaukee Brewers Baseball Club: President and Chief Executive Officer. Formerly, Foley & Lardner LLP (a law firm): Managing Partner, Milwaukee Office.	2000
Andrew J. Policano	58	Paul Merage School of Business, University of California Irvine: Dean. Formerly, University of Wisconsin: Professor and Dean of the School of Business.	1997
Steven J. Smith	58	Journal Communications, Inc. (a diversified media and communications company): Chairman and Chief Executive Officer. Formerly, Journal Communications, Inc.: President.	2000

MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE
TERMS EXPIRING AT THE 2010 ANNUAL MEETING

Name	Age	Business Experience During Last Five Years	Director Since
Kenneth P. Manning	66	Sensient Technologies Corporation (an international producer of flavors, colors and inks): Chairman, President and Chief Executive Officer.	1996
John J. Stollenwerk	68	Allen-Edmonds Shoe Corporation (a manufacturer and marketer of shoes): Chairman.	1996

Certain of our directors also serve as directors of the following companies, some of which are publicly-held. Mr. Fischer is a director of Actuant Corporation, Regal-Beloit Corporation and Wisconsin Energy Corporation. Mr. Manning is a director of Sensient Technologies Corporation and Sealed Air Corporation. Mr. Meeusen is a director of Menasha Corporation and First Wisconsin Bank and Trust. Mr. Payne is a director of Manpower Inc., The Northwestern Mutual Life Insurance Company and Wisconsin Energy Corporation. Mr. Policano is a director of Rockwell-Collins, Inc. Mr. Smith is a director of Journal Communications, Inc. Mr. Stollenwerk is a director of Allen-Edmonds Shoe Corporation, The Northwestern Mutual Life Insurance Company and Koss Corporation.

Independence, Committees, Meetings and Attendance

Our Board of Directors has three standing committees: Audit and Compliance Committee, Corporate Governance Committee and Employee Benefit Plans Committee. The Board of Directors has adopted written charters for each committee, which are available on our website at www.badgermeter.com under the selection Company Investors Corporate Governance Committees of the Board.

Our Board of Directors has affirmatively determined that all of the directors (other than Mr. Meeusen and Mr. Dix) are independent as defined in the listing standards of the American Stock Exchange. None of the independent directors had any transactions, relationships or arrangements with the company that were not otherwise disclosed in this proxy statement, and were considered by the Board in making the independence determination.

The current committee assignments are:

	Board Committee		
Director	**Audit and Compliance**	**Corporate Governance**	**Employee Benefit Plans**
Richard A. Meeusen			
Richard H. Dix			
Thomas J. Fischer	X*		X
Kenneth P. Manning	X	X*	
Ulice Payne, Jr.	X	X	
Andrew J. Policano		X	X
Steven J. Smith	X		X*
John J. Stollenwerk		X	X

* Chairman of the Committee

The Audit and Compliance Committee (referred to as the Audit Committee) met five times in 2007. The Audit Committee oversees our financial reporting process on behalf of the Board of Directors and reports the results of their activities to the Board. The activities of the Audit Committee include employing an independent registered public accounting firm for us, discussing with the independent registered public accounting firm and internal auditors the scope and results of audits, monitoring our internal controls and preapproving and reviewing audit fees and other services performed by our independent registered public accounting firm. The committee also monitors our compliance with our policies governing activities which include but are not limited to our code of conduct and its environmental, safety, diversity, product regulation and quality processes. The Board of Directors has determined that each member of the committee qualifies as an audit committee financial expert as defined by Securities and Exchange Commission rules.

The Corporate Governance Committee (referred to as the Governance Committee) met three times in 2007 and once in February 2008. The Governance Committee reviews and establishes all forms of compensation for our officers and directors and administers our compensation plans, including the various stock plans. The committee also reviews the various management development and succession programs and adopts and maintains our Principles of Corporate Governance. In addition, the committee selects nominees for the Board of Directors.

The Employee Benefit Plans Committee met three times in 2007. The Employee Benefit Plans Committee oversees the administration of our pension plan, employee savings and stock ownership plan, health plans and other benefit plans.

The Board of Directors held five meetings in 2007. Mr. Stollenwerk currently serves as lead outside director of the Board. The lead outside director chairs executive sessions of the Board of Directors and, when necessary, represents the independent directors. During 2007, all directors attended at least 75% of the meetings of the Board of Directors and meetings of the committees held in 2007 on which they served during the period. All members of the Board of Directors attended the 2007 Annual Meeting of Shareholders. It is the Board of Directors policy that all directors attend the Annual Meeting of Shareholders, unless unusual circumstances prevent such attendance.

Nomination of Directors

The Governance Committee has responsibility for selecting nominees for our Board of Directors. All members of the Governance Committee meet the definition of independence set forth by the American Stock Exchange. The Board of Directors has adopted a policy by which the Governance Committee will consider nominees for Board positions, as follows:

The Governance Committee will review potential new candidates for Board of Directors positions.

The Governance Committee will review each candidate s qualifications in light of the needs of the Board of Directors and the company, considering the current mix of director attributes and other pertinent factors.

The minimum qualifications required of any candidate include the highest ethical standards and integrity, and sufficient experience and knowledge commensurate with our needs.

The specific qualities and skills required of any candidate will vary depending on our specific needs at any point in time.

No candidate, including current directors, may stand for reelection after reaching the age of 70.

There are no differences in the manner in which the Governance Committee evaluates candidates recommended by shareholders and candidates identified from other sources.

To recommend a candidate, shareholders should write to the Board of Directors, c/o Secretary, Badger Meter, Inc., P.O. Box 245036, Milwaukee, WI 53224-9536, via certified mail. Such recommendation should include the candidate s name and address, a brief biographical description and statement of qualifications of the candidate and the candidate s signed consent to be named in the proxy statement and to serve as a director if elected.

To be considered by the Governance Committee for nomination and inclusion in our proxy statement, the Board of Directors must receive shareholder recommendations for director no later than October 15 of the year prior to the relevant Annual Meeting of Shareholders.

During 2007, and as of the date of this proxy statement, the Governance Committee did not pay any fees to third parties to assist in identifying or evaluating potential candidates. Also, the Governance Committee has not received any shareholder nominees for consideration at the 2008 Annual Meeting of Shareholders.

Communications with the Board of Directors

If you want to communicate with members of the Board of Directors, you should write to the Board of Directors, c/o Secretary, Badger Meter, Inc., P.O. Box 245036, Milwaukee, WI 53224-9536, via certified mail. Our process for determining how and which communications will be relayed to the Board of Directors has been approved by all of our independent directors.

Principles of Corporate Governance

Our Board of Directors has adopted the following Principles of Corporate Governance:

A majority of the members of Board of Directors are independent directors.

All directors are selected on the basis of their ability to contribute to positive corporate governance through their values, knowledge and skills.

The Board of Directors has established a committee of independent directors who are responsible for nominating directors and assuring compliance with these corporate governance principles (the Governance Committee).

The Board of Directors has established the Audit Committee, which is composed entirely of independent directors who are responsible for overseeing the audit functions and financial reporting compliance of the company. Members of the Audit Committee have the skills, experience and financial expertise to fulfill this function.

The Board of Directors and committees have authority to directly hire outside consultants as needed to properly fulfill their responsibilities.

The independent members of the Board of Directors hold regular executive sessions without the presence of management or non-independent directors.

The Board of Directors has designated an independent director as the lead outside director to chair executive sessions and, when necessary, represent the independent directors.

The Board of Directors has reviewed and approved our Code of Business Conduct.

The Board of Directors has created an environment to promote effective corporate governance and to represent the interests of the shareholders in all matters.

RELATED PERSON TRANSACTIONS

We had no transactions during 2007, and none are currently proposed, in which we were a participant and in which any related person had a direct or indirect material interest. Our Board of Directors has adopted written policies and procedures regarding related person transactions. For purposes of these policies and procedures:

A related person means any of our directors, executive officers or nominees for director or any of their immediate family members; and

A related person transaction generally is a transaction (including any indebtedness or a guarantee of indebtedness) in which we were or are to be a participant and the amount involved exceeds $120,000, and in which a related person had or will have a direct or indirect material interest.

Each of our executive officers, directors or nominees for director is required to disclose to the Governance Committee certain information relating to related person transactions for review, approval or ratification by the Governance Committee. Disclosure to the Governance Committee should occur before, if possible, or as soon as practicable after the related person transaction is effected, but in any event as soon as practicable after the executive officer, director or nominee for director becomes aware of the related person transaction. The Governance Committee s decision whether or not to approve or ratify a related person transaction is to be made in light of the Governance Committee s determination that consummation of the transaction is not or was not contrary to our best interests. Any related person transaction must be disclosed to the full Board of Directors.

STOCK OWNERSHIP OF BENEFICIAL OWNERS HOLDING MORE THAN FIVE PERCENT

The following table provides information concerning persons known by us to beneficially own more than five percent of our common stock as of February 29, 2008.

Name	Aggregate Number of Shares and Percent of Common Stock Beneficially Owned
Invesco Ltd. 1360 Peachtree Street NE Atlanta, GA 30309	1,398,827(1) 9.6%
Marshall & Ilsley Corporation 770 North Water Street Milwaukee, WI 53202	1,050,234(2) 7.2%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	795,688(3) 5.5%

(1) Information shown is based on a jointly filed Schedule 13G filed with the Securities and Exchange Commission by Invesco Ltd. and PowerShares Capital Management LLC. The Schedule 13G indicates that such parties have sole voting and dispositive power over all of such shares.

(2) Information shown is based on a jointly filed Schedule 13G filed with the Securities and Exchange Commission by Marshall & Ilsley Corporation, Marshall & Ilsley Trust Company N.A. and M&I Investment Management Corp. The Schedule 13G indicates that Marshall & Ilsley Corporation has sole voting power over 93,597 of such shares and sole dispositive power over 92,797 of such shares, and that it has shared voting power over 956,637 of such shares and shared dispositive power over 957,437 of such shares. The Schedule 13G indicates that Marshall & Ilsley Trust Company N.A. has sole voting power over 92,852 of such shares and sole dispositive power over 92,052 of such shares, and that it has shared voting power over 956,637 of such shares and shared dispositive power over 957,437 of such shares. The Schedule 13G indicates that M&I Investment Management Corp. has sole voting power over 745 of such shares and sole dispositive power over 745 of such shares, and that it has no shared voting or dispositive power over any of such shares.

(3) Information shown is based on a jointly filed Schedule 13G filed with the Securities and Exchange Commission by T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. The Schedule 13G indicates that T. Rowe Price Associates, Inc. has sole voting power over 90,000 of such shares and sole dispositive power over all of such shares, and that it has no shared voting or dispositive power over any of the shares. The Schedule 13G indicates that T. Rowe Price Small-Cap Value Fund, Inc. has sole voting power over 705,688 of such shares, no dispositive power (sole or shared) over any of the shares and no shared voting power over any of the shares.

STOCK OWNERSHIP OF MANAGEMENT

The following table sets forth, as of February 29, 2008, the number of shares of common stock beneficially owned and the number of exercisable options outstanding by (i) each of our directors, (ii) each of the executive officers named in the Summary Compensation Table set forth below (referred to as the named executive officers), and (iii) all of our directors and executive officers as a group. Securities and Exchange Commission rules define beneficial owner of a security to include any person who has or shares voting power or investment power with respect to such security.

	Aggregate Number of Shares and Percent of Common Stock Beneficially Owned(1)
Ronald H. Dix	217,961(2) 1.5%
Thomas J. Fischer	48,866 *
Kenneth P. Manning	60,066 *
Richard A. Meeusen	201,847(3) 1.4%
Ulice Payne, Jr.	17,666 *
Andrew J. Policano	23,177(4) *
Steven J. Smith	50,866 *
John J. Stollenwerk	78,443(5) *
Horst E. Gras	29,360(6) *
Richard E. Johnson	135,425(7) *
Dennis J. Webb	75,364(8) *
All Directors and Executive Officers as a Group (16 persons, including those named above)	1,149,895 7.8%

* Less than one percent

(1) Unless otherwise indicated, the beneficial owner has sole investment and voting power over the reported shares, which include shares from stock options currently exercisable or exercisable within 60 days of February 29, 2008.

(2) Ronald H. Dix has sole investment power over 52,000 shares he holds directly, 92,600 shares he owns with his spouse, 13,141 shares in our Employee Savings and Stock Ownership Plan, 52,720 shares subject to stock options which are currently exercisable or exercisable within 60 days of February 29, 2008, and 7,500 shares of restricted stock.

(3) Richard A. Meeusen has sole investment power over 110,264 shares he holds directly, 3,363 shares in our Employee Savings and Stock Ownership Plan, 77,320 shares subject to stock options which are currently exercisable or exercisable within 60 days of February 29, 2008, and 10,900 shares of restricted stock.

(4) Does not include deferred director fee holdings of 475 phantom stock units held by Mr. Policano under the Badger Meter Deferred Compensation Plan for Directors. The value of the phantom stock units is based upon and fluctuates with the market value of the common stock. When a participant chooses to exit the plan, all compensation accrued is paid out only in cash.

(5) Does not include deferred director fee holdings of 19,416 phantom stock units held by Mr. Stollenwerk under the Badger Meter Deferred Compensation Plan for Directors. The value of the phantom stock units is based upon and fluctuates with the market value of the common stock. When a participant chooses to exit the plan, all compensation accrued is paid out only in cash.

(6) Horst E. Gas has sole investment power over 18,520 shares he holds directly and 6,040 shares subject to stock options which are currently exercisable or exercisable within 60 days of February 29, 2008, and 4,800 shares of restricted stock.

(7) Richard E. Johnson has sole investment power over 28,000 shares he holds directly in an IRA, 66,192 shares he owns with his spouse, 1,613 shares in our Employee Savings and Stock Ownership Plan, 31,720 shares subject to stock options which are currently exercisable or exercisable within 60 days of February 29, 2008, and 7,900 shares of restricted stock.

(8) Dennis J. Webb has sole investment power over 55,100 shares he holds directly, 13,731 shares in our Employee Savings and Stock Ownership Plan, 600 shares subject to stock options which are currently exercisable or exercisable within 60 days of February 29, 2008, and 5,933 shares of restricted stock.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Policies and Procedures

Our executive compensation program for all elected officers, including each named executive officer, is administered by the Governance Committee. The Governance Committee is composed of four independent non-employee directors Messrs. Manning (Chairman), Payne, Policano and Stollenwerk.

The compensation policies that guide the Governance Committee as it carries out its duties include the following:

- Executive pay programs should be designed to attract and retain qualified executive officers, as well as motivate and reward performance.

- The payment of annual incentive compensation should be directly linked to the attainment of performance goals approved by the Governance Committee.

- Incentive programs should be designed to enhance shareholder value by utilizing stock options, restricted stock and long-term cash incentives in order to ensure that our executives are committed to our long-term success.

- The Governance Committee should attempt to achieve a fair and competitive compensation structure by implementing both short-term and long-term plans with fixed and variable components.

In making its decisions and recommendations regarding executive compensation, the Governance Committee reviews, among other things:

- Compensation data obtained through an independent executive compensation consulting firm for competitive businesses of similar size and similar business activity. The data considered includes information relative to both base salary and bonus data separately and on a combined basis, as well as total cash and long-term incentive compensation.

- Our financial performance as a whole and for various product lines relative to the prior year, our budget and other meaningful financial data, such as sales, return on assets, return on equity, cash generated from operations and financial position.

- The recommendations of the President and Chief Executive Officer with regard to the other officers.

Total Compensation

We strive to compensate our executives at competitive levels, with the opportunity to earn above-median compensation for above-market performance, through programs that emphasize performance-based incentive compensation in the form of annual cash payments, equity-based awards and a long-term incentive program. To that end, total executive compensation is tied to our performance and is structured to ensure that, due to the nature of our business, there is an appropriate balance focused on our long-term versus short-term performance, and also a balance between our financial performance, individual performance of our executive officers and the creation of shareholder value. We believe that the total compensation paid or awarded to our named executive officers during 2007 was consistent with our financial performance and the individual performance of each of the named executive officers. Based on our analysis and the advice of our independent executive compensation consultants, we also believe that the compensation was reasonable in its totality and is consistent with our compensation philosophies as described above. The consultant was paid a fixed fee for this service.

To the extent that base salaries and equity grants vary by professional role in the market place, as demonstrated by the competitive market data supplied by our independent executive compensation consultants, the base salaries and equity grants of the named executive officers will vary, sometimes significantly. For example, consistent with the level of responsibility and the executive compensation practices of the companies in the market comparisons, Chief Executive Officers typically earn significantly more in base salary and equity grants than other named executive officers.

As noted above, our Chief Executive Officer serves in an advisory role to the Governance Committee with respect to executive compensation for named executive officers other than himself (the Chief Executive Officer does not participate in determining or recommending compensation for himself or for the outside directors). His recommendations are given significant weight by the Governance Committee, but the Governance Committee remains responsible for all decisions on compensation levels for the named executive officers and on our executive compensation policies and executive compensation programs. The executive compensation consultant does not make specific recommendations on individual compensation amounts for the named executive officers or the outside directors, nor does the consultant determine the amount or form of executive and director compensation. All decisions on executive compensation levels and programs are made by the Governance Committee.

Elements of Compensation

The compensation program for our executive officers involves base salaries, benefits, short-term annual cash incentive bonuses and a long-term incentive program using stock options, restricted stock and cash incentives.

Base Salary. Salary rates and benefit levels are established for each officer by the Governance Committee, using data supplied by an independent executive compensation consulting firm on organizations of similar size and business activity. The compensation data incorporates privately-held as well as publicly-held companies of similar size, and has a broad definition of similar business activity, thereby providing a more comprehensive basis for evaluating compensation relative to those companies that compete with us for executives. The data includes salaries, benefits, total cash compensation, long-term incentive compensation and total compensation. In establishing the compensation of each officer, including the President and Chief Executive Officer, the Governance Committee is given a five-year history, which sets forth the base salary, short-term incentive awards, and long-term compensation of each officer. Our policy is to pay executives at market, with appropriate adjustments for performance and levels of responsibility. The Governance Committee has consistently applied this policy and procedure with respect to base salaries for the past 17 years.

Base salary increases for our executive officers approved as of February 1, 2008, by the Governance Committee ranged from 2.8% to 12.5% percent. The President and Chief Executive Officer s compensation increased 6.5% percent. The other named executive officers received base salary increases of 5.2% each for Messrs. Johnson and Dix, 2.8% for Mr. Gras and 5.0% for Mr. Webb. These increases were based on an evaluation of the factors set forth above relative to each individual s circumstances and performance and are believed to be fair and competitive. The Governance Committee believes that each of these individual increases is appropriate and necessary to maintain competitive salary levels and to recognize the contribution of each named executive officer to our financial success.

Annual Bonus Plan. Our annual bonus plan is designed to promote the maximization of shareholder value over the long term. The plan is intended to provide a competitive level of compensation when the executive officers achieve their performance objectives. Under the annual bonus plan, the target bonus is 60% of the President and Chief Executive Officer s base salary and 35% 55% of the base salary for all other named executive officers. The targets set pursuant to the bonus plan are comprised of two components a financial factor based on the attainment of a certain level of earnings before interest and taxes and individual performance.

The Governance Committee approves the target level of earnings used for the financial component of the determination of an executive s bonus at the beginning of each year. For 2007, the financial factor was based on achieving an increase in adjusted Earnings Before Interest and Taxes (EBIT) of 24.6% over the 2006 adjusted EBIT, at which point the maximum bonus could be paid. No bonus was to be paid if 2007 adjusted EBIT did not increase over the 2006 adjusted EBIT, and the bonus was to be pro-rated for any increase up to 24.6%. The Governance Committee has the discretion to adjust these EBIT factors based on unusual events, such as acquisitions or losses on discontinued operations. For 2007, the Governance Committee decided that the results of discontinued operations would not be included in the 2007 EBIT calculation for the executive officers. The Governance Committee believes that such an adjustment was appropriate for the executive officers in light of their overall contribution to our positive performance in 2007 and the fact that the discontinued operations was an unusual event. Bonuses paid for 2007 were approximately 66% of target bonus amounts.

The target bonus may also be adjusted up or down 10 percent at the discretion of the Governance Committee. Further, the Governance Committee has the authority to adjust the total amount of any yearly bonus award on a discretionary basis. Several increase adjustments were made for 2007 within these guidelines.

Long-Term Incentive Plan (referred to as LTIP). Our long-term incentive compensation program consists of a combination of stock option awards, restricted stock awards and cash incentives. This program presents an opportunity for officers and other key employees to gain or increase their equity interests in our stock. Each executive officer is expected to hold common stock equal to at least two-times his or her annual base salary. Although no formal deadline has been established, new officers are generally expected to achieve this level of stock ownership within a reasonable time, but in any event, within six years of joining us. Each named executive officer has achieved the targeted level of stock ownership.

Stock options and restricted stock awards are granted annually to the officers and other key employees at amounts determined each year by the Governance Committee. All of the stock options and restricted stock awards are granted at the market price on the date of grant. Since 2003, the Governance Committee has granted all such annual awards on the first Friday of May in each year, and has priced all such awards at the closing price of the common stock on that date. The Governance Committee has established that date to avoid any inference of timing such awards to the release of material non-public information. If material non-public information is pending on the first Friday of May in any year, then the Governance Committee will select a new date for awarding stock options and restricted stock for that year.

In addition to stock options and restricted stock awards, our LTIP provides a cash bonus to all officers, including the named executive officers. The current LTIP is based on a three-year performance period (2006-2008), and provides for the payment of a cash bonus in May of 2009 if certain diluted earnings per share targets for the combined three year period are met. For the 2006-2008 period, no incentive will be paid if the combined diluted earnings per share is below $3.415, and the full incentive will be paid if the combined diluted earnings per share reaches or exceeds $3.795. The incentive payment will be prorated for any earnings per share amount between these targets. The Governance Committee may, at its discretion, adjust these targets or the achieved earnings per share for unusual factors, such as acquisitions or losses on discontinued operations. For 2006 and 2007, the Governance Committee has determined that certain write-downs and charges in connection with the liquidation of a French subsidiary will not be included in the final incentive calculation. Additionally, all earnings per share amounts in this discussion have been adjusted for the June 15, 2006 two-for-one stock split.

Other Benefits

Salary Deferral Plan. All executive officers, except Mr. Gras, are eligible to participate in a salary deferral plan described in Note 1 of the Nonqualified Deferred Compensation Table below. The Governance Committee believes that it is appropriate to offer this program to enable the officers to better manage their taxable income and retirement planning. Based on its analysis and the advice of our independent executive compensation consultants, the Governance Committee believes that this program is competitive with comparable programs offered by other companies.

Supplemental Retirement Plans. We offer various supplemental retirement plans to certain employees, including certain named executive officers. The purpose of these plans is to compensate the employees for pension reductions caused by salary deferrals or by regulatory limitations on qualified plans. Also, there are nonqualified supplemental executive retirement plans for Messrs. Meeusen, Dix and Johnson, which are designed to enhance their regular retirement programs. The Governance Committee believes that these supplemental retirement plans are appropriate to attract and retain qualified executives. For more information on these plans, see the narrative discussion that follows the Pension Benefits Table below.

Additional benefits. Each executive officer receives the use of a vehicle (or a car allowance) for both personal and business purposes. We also pay certain club dues for Mr. Meeusen and long-term disability benefits and tax gross-ups on life insurance benefits for Messrs. Meeusen, Dix and Johnson. All executive officers, except Mr. Gras, participate in the Badger Meter, Inc. Employee Savings and Stock Ownership Plan and other benefit and pension plans provided to all U.S. employees.

Section 162(m) Limitations. It is anticipated that all 2007 compensation to executive officers will be fully deductible under Section 162(m) of the Code and therefore the Governance Committee determined that a policy with respect to qualifying compensation paid to certain executive officers for deductibility is not necessary.

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 named executive officer s employment with us terminates (whether by us, the named executive officer or otherwise) within 180 days prior to the change in control and (2) it is reasonably demonstrated by the named 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 named 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. For more information regarding the KEESAs, see the discussion in Potential Payments Upon Termination or Change-in-Control below.

Summary Compensation Table

The following table sets forth for each of the named executive officers: (1) the dollar value of base salary and bonus earned during each of the two years ended December 31, 2006 and Dece