2009 Annual Report

Financial Highlights

Operating Results for the Year

	2009	2008
Net Sales	$ 167,519,000	$ 217,882,000
Income (Loss) before Taxes	$ (859,000)	$ 6,460,000
Provision (Benefit) for Income Taxes	(1,283,000)	2,350,000
Net Income	$ 424,000	$ 4,110,000
Earnings per Common Share:		
Basic	$ 0.36	$ 3.53
Diluted	$ 0.36	$ 3.47
Dividends Declared per Share	$ 0.60	$ 2.40

Year-End Position

	2009	2008
Total Assets	$ 115,633,000	$ 152,132,000
Working Capital	$ 2,653,000	$ 5,394,000
Current Ratio	1.07 : 1	1.08 : 1
Net Worth	$ 24,932,000	$ 20,110,000
Book Value per Share	$19.69	$16.14
Common Shares Outstanding	1,266,229	1,245,630
Backlog	$ 31,090,000	$ 56,421,000

Dear Shareholder,

As our annual report reflects, 2009 was a very challenging year with a 23% drop in sales as compared to 2008. In response to the recession that began back in 2008, we initiated aggressive cost-cutting measures throughout 2009. As a result, we are able to report a modest profit of $424,000 (or $0.36 per share) for 2009.

Finally 2009 is behind us and we are back to work. Quote activity is up, milk pricing is on the rise, and the President's State of the Union Address shined a positive light on nuclear energy, an area in which we are finding opportunities for business. As a result of our 2009 reorganization effort, we believe we have laid the foundation for a successful 2010. In late 2005 through early 2008, we were successful with our strategy of growing top-line sales to achieve bottom-line profitability. By mid-2008, we faced the realization that this strategy, for the immediate future, was no longer sustainable. As a result, we put into place a cost-control plan that in 2009 focused on cash flow and quality new bookings. At the same time, we began an extensive reevaluation of our entire operation with a goal of "Right Sizing" the business to reflect the market conditions of 2010 and beyond.

Our Dairy Farm Equipment segment had a successful year primarily driven by the performance of our European operations (Mueller B.V.). In 2009, Mueller B.V. posted sales of $57,822,000 and net income of $2,941,000. European milk prices were down for most of 2009, but not proportionally to the levels of the domestic market. In addition, unlike in the U.S., the milk processors were still required to take delivery of the milk produced. The workload in our Mueller B.V. facility remained strong and profitable throughout 2009. Over the last 18 months, we have improved our product offerings in Europe, strengthened the local management team, and implemented operational improvements. These efforts, in conjunction with our current market outlook, have us very optimistic for continued success in 2010 for Mueller B.V. In contrast, our Dairy Farm Equipment sales for North and South America were off 54% from the 2008 level. The downturn in sales experienced in Mueller-branded products was even more drastically felt on the OEM side of the segment. The loss of production resulted in significant plant layoffs at our Iowa facility and a breakeven financial performance for the domestic operation. In recent months, domestic milk pricing has improved and inquiry activity has significantly increased; as a result, in early 2010, we began calling back Iowa plant employees.

Industrial Equipment segment sales were 42% below the 2008 level; and as a result, the loss for this segment was $7,516,000. In 2009, we reevaluated the operational organization, marketing approach, and cost of production of this entire segment. Our goal was a simple one – put together a business model that would allow us to be profitable even in the most difficult of times, while retaining the flexibility to take advantage of opportunities that the market provides us as the economy recovers. The resulting "Right Sizing" effort is the basis for our 2010 Business Plan. Though this effort was primarily focused on the Industrial Equipment segment, the resulting changes positively impacted the operational costs of all segments of the Company. Under the plan, we reduced and/or eliminated over $13,000,000 in salaried positions, reduced our healthcare costs by 11%, and negotiated a new collective bargaining agreement for our Springfield plant with a 10% across-the-board reduction in wage rates. In addition, we reaffirmed our marketing model of providing our customers with process solutions that positively impact their bottom lines. We are in the final phases of the implementation of our "Right Sizing" effort; and this new model has simplified our processes, has improved our ability to provide our products and services at very competitive prices without sacrificing quality, and is expected to result in improvement in the Industrial Equipment segment performance.

Our Field Fabrication segment had another successful year in 2009, with sales of $20,383,000 and 10% profit. The success was due to a profitable mix of "project work" and "repair/maintenance work." The tight financing and weak economy forced many of our customers to shift their investments to maintaining or renovating equipment already in use. This work typically has higher margins due to the difficulty and time constraints placed on the contractors bidding for the work. Despite severe competitive pricing pressures, our Field Fabrication segment was able to secure a nice mix of business and perform better than estimated. The Field Fabrication segment also benefited from the people made available from the "Right Sizing" efforts in our Industrial Equipment segment. Even with a cautious outlook for economic recovery, our Field Fabrication segment is positioned for another successful year in 2010.

As goes the equipment business, so goes Mueller Transportation, Inc. This business continues to be primarily a transporter of our specialty loads for all of our domestic equipment business. We also market this capability to other equipment manufacturers and to our customers. In recent years, this business has been negatively affected by the roller-coaster ride of fuel pricing and poor economic conditions; and 2009 was no exception, as the loss was $191,000 for the year.

As we look to 2010, we do so with relief that 2009 is behind us and with excitement for the opportunities that lie ahead. The "Right Sizing" was a fast track cultural change at Paul Mueller Company. Don't get me wrong; we are very proud of the long, rich history of our Company, but the world has changed, our markets have changed, the competitors have changed, and the expectations of our customers have changed. Today, we at Mueller have changed in preparation for what lies ahead.

Matthew T. Detelich
President and CEO

March 2010

Corporate Profile

Paul Mueller Company, headquartered in Springfield, Missouri, was incorporated in 1946. For over half a century, we have been building a reputation as an outstanding manufacturer of stainless steel tanks and industrial processing equipment that make the customer's process smoother, faster, and more reliable. Mueller has evolved into a global process solution provider, offering manufactured equipment and components, integrated process systems, and expanded-scope construction. Our philosophy is simple: we are committed to meeting and exceeding our customers' expectations of value by providing high quality equipment, excellent service, and complete process solutions.

Paul Mueller Company has grown to occupy about 1,100,000 square feet of manufacturing space in three manufacturing facilities located in Springfield, Missouri; Osceola, Iowa; and Lichtenvoorde, The Netherlands. Mueller products are used in over 100 countries worldwide on dairy farms and in a wide variety of industrial applications, including food, dairy, and beverage processing; pharmaceutical, biotechnological, and chemical processing; water distillation; heat transfer; HVAC; heat recovery; process cooling; and thermal energy storage.

Large field-erected vessels, equipment installation, retrofit and/or repair of process systems, process piping, and turnkey design and construction of complete processing plants are services provided by Mueller Field Operations, Inc., a wholly owned subsidiary. Transportation of the Companies' products and backhauls of material and components are handled by another wholly owned subsidiary, Mueller Transportation, Inc.

Mueller B.V., a Dutch holding company, was established during 2008 and is the parent company to Paltrok Beheer B.V. and the MEKO companies, which were acquired during 2008. Paltrok Beheer B.V. has a manufacturing facility located in Lichtenvoorde, The Netherlands; and the MEKO companies provide sales, service, and milk tank rental capabilities primarily for the Benelux and the other European union countries. The acquired companies are primarily engaged in activities in dairy farm equipment. However, they have capabilities to expand their operations into industrial equipment and to service international markets.

Consolidated Statements of Income
For the Years Ended December 31, 2009, 2008, and 2007

	2009	2008	2007
Net Sales	$ 167,518,677	$ 217,881,755	$ 241,147,181
Cost of Sales	123,227,620	176,826,262	200,858,816
Gross profit	$ 44,291,057	$ 41,055,493	$ 40,288,365
Selling, General, and Administrative Expenses	42,383,192	34,443,066	25,274,653
Operating income	$ 1,907,865	$ 6,612,427	$ 15,013,712
Other Income (Expense):			
Interest income	$ 71,837	$ 577,797	$ 369,803
Interest expense	(2,160,995)	(1,084,563)	(71,960)
Other, net	(358,259)	226,418	(680,244)
	$ (2,447,417)	$ (280,348)	$ (382,401)
Income (loss) before provision for income taxes and equity in income (loss) of joint ventures	$ (539,552)	$ 6,332,079	$ 14,631,311
Provision (Benefit) for Income Taxes	$ (1,283,666)	2,349,418	5,508,000
Income before Equity in Income of Joint Ventures	$ 744,114	$ 3,982,661	$ 9,123,311
Equity in Income (Loss) of Joint Ventures	(319,827)	127,629	(36,866)
Net Income	$ 424,287	$ 4,110,290	$ 9,086,445
Earnings per Common Share:			
Basic	$ 0.36	$ 3.53	$ 7.88
Diluted	$ 0.36	$ 3.47	$ 7.74

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

Consolidated Balance Sheets
December 31, 2009 and 2008

Assets

	2009	2008
Current Assets:		
Cash and cash equivalents	$ 2,768,094	$ 4,477,566
Accounts receivable, less reserve for doubtful accounts of $1,008,437 for 2009 and $601,592 for 2008	20,226,518	35,625,677
Costs and estimated earnings in excess of billings	485,403	7,748
Inventories: Raw materials and components	$ 5,342,401	$ 12,734,341
Work-in-process	1,323,069	4,380,811
Finished goods	10,225,572	11,435,595
	$ 16,891,042	$ 28,550,747
Prepayments	2,946,019	5,190,568
Total Current Assets	$ 43,317,076	$ 73,852,306
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 8,038,352	$ 7,919,288
Buildings	19,536,646	19,298,843
Fabrication equipment	77,190,443	52,002,809
Transportation, office, and other equipment	17,124,848	39,124,703
Construction-in-progress	2,561,801	2,204,921
	$124,452,090	$120,550,564
Less: Accumulated depreciation	72,504,273	65,233,262
	$ 51,947,817	$ 55,317,302
Goodwill	8,867,450	8,887,463
Deferred Tax Assets	6,378,130	7,997,500
Other Assets	5,122,787	6,077,928
	$115,633,260	$152,132,499

Liabilities and Shareholders' Investment

	2009	2008
Current Liabilities:		
Short-term borrowings	$ 8,031,961	$ 14,909,521
Current maturities of long-term debt	7,278,619	7,879,118
Accounts payable	6,894,368	9,686,665
Accrued expenses: Income taxes	–	834,857
Payroll and benefits	4,631,440	6,701,147
Vacations	2,680,368	4,494,799
Other	3,152,473	7,473,385
Advance billings	7,628,748	12,745,660
Billings in excess of costs and estimated earnings	366,568	3,733,128
Total Current Liabilities	$ 40,664,545	$ 68,458,280
Long-Term Pension Liabilities	17,951,968	24,388,767
Long-Term Debt	26,991,997	33,763,216
Other Long-Term Liabilities	5,093,209	5,412,480
Contingencies		
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,481,411 shares for 2009 and 1,456,560 shares for 2008	$ 1,481,411	$ 1,456,560
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	7,846,875	7,279,487
Retained earnings	34,617,584	34,940,672
	$ 43,945,870	$ 43,676,719
Less: Treasury stock – 215,182 shares for 2009 and 210,930 shares for 2008, at cost	3,995,992	3,899,296
Common stock held by Rabbi Trust – 4,125 shares for 2009 and no shares for 2008	107,510	–
Accumulated other comprehensive loss	14,910,827	19,667,667
	$ 24,931,541	$ 20,109,756
	$115,633,260	$152,132,499

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

Consolidated Statements of Shareholders' Investment and Comprehensive Income (Loss) For the Years Ended December 31, 2009, 2008, and 2007

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance – 12-31-2006	$ 1,394,038	$ 5,173,038	$ 27,534,364	$ (3,794,543)	$ (9,737,814)	$ 20,569,083
Add (Deduct):						
Net income	–	–	9,086,445	–	–	$ 9,086,445
Other comprehensive income, net of tax:						
Foreign currency translation adjustment	–	–	–	–	(3,234)	(3,234)
Change in pension liability	–	–	–	–	365,576	365,576
Comprehensive income	–	–	–	–	–	$ 9,448,787
Dividends, $2.40 per common share	–	–	(2,867,555)	–	–	(2,867,555)
Restricted stock issued	14,013	(14,013)	–	–	–	–
Treasury stock acquired	–	–	–	(32,718)	–	(32,718)
Tax benefit of stock compensation	–	42,595	–	–	–	42,595
Deferred compensation amortization	–	236,742	–	–	–	236,742
Balance – 12-31-2007	$ 1,408,051	$ 5,438,362	$ 33,753,254	$ (3,827,261)	$ (9,375,472)	$ 27,396,934
Add (Deduct):						
Net income	–	–	4,110,290	–	–	$ 4,110,290
Other comprehensive income, net of tax:						
Foreign currency translation adjustment	–	–	–	–	(347,800)	(347,800)
Change in pension liability	–	–	–	–	(9,522,275)	(9,522,275)
Swap value	–	–	–	–	(422,120)	(422,120)
Comprehensive (loss)	–	–	–	–	–	$ (6,181,905)
Dividends, $2.40 per common share	–	–	(2,922,872)	–	–	(2,922,872)
Restricted stock issued	16,509	(16,509)	–	–	–	–
Common stock issued	32,000	1,440,000	–	–	–	1,472,000
Treasury stock acquired	–	–	–	(72,035)	–	(72,035)
Tax benefit of stock compensation	–	49,759	–	–	–	49,759
Deferred compensation amortization	–	367,875	–	–	–	367,875
Balance – 12-31-2008	$ 1,456,560	$ 7,279,487	$ 34,940,672	$ (3,899,296)	$(19,667,667)	$ 20,109,756
Add (Deduct):						
Net income	–	–	424,287	–	–	$ 424,287
Other comprehensive income, net of tax:						
Foreign currency translation adjustment	–	–	–	–	493,438	493,438
Change in pension liability	–	–	–	–	4,153,962	4,153,962
Amortization on de-designated hedges	–	–	–	–	109,440	109,440
Comprehensive income	–	–	–	–	–	$ 5,181,127
Dividends, $0.60 per common share	–	–	(747,375)	–	–	(747,375)
Restricted stock issued	20,716	(20,716)	–	–	–	–
Restricted stock forfeitures	–	96,696	–	(96,696)	–	–
Common stock issued to Rabbi Trust	4,135	103,375	–	(107,510)	–	–
Tax benefit of stock compensation	–	(25,307)	–	–	–	(25,307)
Deferred compensation amortization	–	413,340	–	–	–	413,340
Balance – 12-31-2009	$ 1,481,411	$ 7,846,875	$ 34,617,584	$ (4,103,502)	$(14,910,827)	$ 24,931,541

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2009, 2008, and 2007

	2009	2008	2007
Cash Flows from Operating Activities:			
Net income	$ 424,287	$ 4,110,290	$ 9,086,445
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in loss (income) of joint ventures	319,827	(127,629)	36,866
Bad debt expense	589,233	332,858	42,442
Depreciation and amortization	8,631,176	7,594,139	4,256,311
Loss (gain) on sales of equipment	714	(3,100)	(31,376)
Deferred tax (benefit) expense	(163,936)	1,315,507	36,582
Valuation allowance – change	(131,249)	72,664	3,280
Changes in assets and liabilities, net of effect of acquisitions –			
Decrease (increase) in accounts and notes receivable	15,427,643	21,405,882	(13,073,251)
(Increase) decrease in costs in excess of estimated earnings and billings	(477,655)	(2,118,733)	1,229,424
Decrease in inventories	11,636,679	3,112,424	3,755,561
Decrease (increase) in prepayments	1,796,874	(990,124)	(640,884)
(Increase) decrease in other assets	(1,399,211)	374,705	819,187
(Decrease) in accounts payable	(2,352,114)	(8,039,247)	(495,906)
(Decrease) increase in accrued expenses	(9,138,354)	(3,953,498)	5,085,954
(Decrease) in advance billings	(5,140,409)	(6,185,417)	(3,916,034)
(Decrease) increase in billings in excess of costs and estimated earnings	(3,366,560)	(4,947,022)	113,475
Increase (decrease) in other long-term liabilities	30,308	(3,353,571)	(241,002)
Net Cash Provided by Operating Activities	$ 16,687,253	$ 8,600,128	$ 6,067,074
Cash Flows (Requirements) from Investing Activities:			
Cost of acquisitions, including transaction costs, net of cash acquired	$ –	$ (7,368,498)	$ –
Proceeds from sale of subsidiaries	217,121	–	–
Proceeds from sales of equipment	967	8,650	67,375
Additions to property, plant, and equipment	(3,420,676)	(3,762,890)	(10,533,226)
Net Cash (Required) by Investing Activities	$ (3,202,588)	$(11,122,738)	$(10,465,851)
Cash Flow Provisions (Requirements) from Financing Activities:			
Proceeds from short-term borrowings	$ –	$ 6,053,094	$ –
Repayment of short-term borrowings	(7,493,780)	(1,068,199)	–
Long-term debt proceeds	–	8,808,788	2,916,383
Repayment of long-term debt	(6,802,504)	(5,090,656)	(731,207)
Dividends paid	(747,375)	(2,922,872)	(2,867,555)
Treasury stock acquisitions	–	(72,035)	(32,718)
Net Cash (Required) Provided by Financing Activities	$(15,043,659)	$ 5,708,120	$ (715,097)
Effect of Exchange Rate Changes	(150,478)	(123,584)	–
Net (Decrease) Increase in Cash and Cash Equivalents	$ (1,709,472)	$ 3,061,926	$ (5,113,874)
Cash and Cash Equivalents at Beginning of Year	4,477,566	1,415,640	6,529,514
Cash and Cash Equivalents at End of Year	$ 2,768,094	$ 4,477,566	$ 1,415,640

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

Notes to Consolidated Financial Statements December 31, 2009, 2008, and 2007

(1) Summary of Accounting Policies:

Principles of Consolidation and Lines of Business – The financial statements include the accounts of Paul Mueller Company ("Company") and its wholly owned subsidiaries: Mueller Transportation, Inc.; Mueller Field Operations, Inc.; and Mueller B.V., a Dutch holding company and parent to the companies acquired during 2008 (see Note 2) ("Companies"). The Company is a global process solution provider of manufactured equipment and components and integrated process systems for the food, dairy, beverage, chemical, pharmaceutical, biotechnological, and other process industries, as well as the dairy farm market. The Companies also offer expanded-scope construction encompassing large field-erected vessels, equipment installation, retrofit and/or repair of process systems, process piping, and turnkey design and construction of complete processing plants.

Joint Ventures – The Company previously owned a 50% interest in Mueller Montaña de México, S.A. de C.V. ("Mueller Montaña"), a Mexican fabricator of industrial equipment. The investment was accounted for under the equity method and was included in other assets on the Consolidated Balance Sheets; and the equity in the income (loss) of joint ventures was included on the Consolidated Statements of Income.

On October 24, 2009, the owners of the other 50% interest in Mueller Montaña purchased all of the Company's shares for $740,000. The Company received $100,000 in cash at closing and a $640,000 note, with the principal and interest at 5% paid quarterly over the next four years. The note is secured by the pledge of 100% of the shares of Montaña ATP de México, S.A. de C.V. ("Montaña ATP"), the successor company to Mueller Montaña, and is also guaranteed by the shareholders of Montaña ATP. The transaction was recorded at a loss of $138,000, as the carrying amount of the investment was $600,000 and the cumulative translation loss was $278,000 at the date of close. The loss is included in equity in income (loss) of joint ventures on the accompanying Consolidated Statements of Income. During 2009, the Company also sold its minority interest in a limited liability corporation for $117,100.

As a part of the acquisitions made during 2008 (see Note 2), Mueller B.V. acquired a 49% interest in DEG Engineering GmbH, a German engineering firm that designs and sells heat transfer equipment. The investment is accounted for under the equity method and is included in other assets on the Consolidated Balance Sheets; and the equity in the results is included in equity in income (loss) of joint ventures on the Consolidated Statements of Income.

Use of Estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition and Retainages – Revenue from sales of fabricated products is recognized upon passage of title to the customer. Passage of title may occur at the time of shipment from the Company's dock, at the time of delivery to the customer's location, or when projects are completed in the field and accepted by the customer. For large multi-unit projects that are fabricated in the plant, revenue is recognized under the units-of-delivery method, which is a modification of the percentage-of-completion method of accounting for contracts. The units-of-delivery method recognizes as revenue the contract price of units completed and shipped or delivered to the customer (as determined by the contract) or completed and accepted by the customer for field-fabrication projects. The applicable manufacturing cost of each unit is identified and charged to cost of sales as revenue is recognized.

Revenues from long-term, fixed-price contracts that involve only a few deliverables are generally recognized under the percentage-of-completion method of accounting. Under this method, revenues and profits for plant-fabricated projects are recorded by applying the ratio of total manufacturing hours incurred to date for each project to estimated total manufacturing hours for each project. For field-fabricated projects, revenues and profits are recorded by applying the ratio of costs incurred to date for each contract to the estimated total costs for each contract at completion.

Estimates of total manufacturing hours and total contract costs for relevant contracts are reviewed continually and, if necessary, are updated to properly state the estimates. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Costs and estimated earnings in excess of billings on uncompleted contracts arise when costs have been incurred and revenues have been recorded, but the amounts are not yet billable under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of the contracts. Billings in excess of costs and estimated earnings on uncompleted contracts arise as a result of advance and progress billings on contracts. Costs and estimated earnings on uncompleted contracts and related amounts billed as of December 31, 2009 and 2008, were as follows:

	2009	2008
Costs incurred on uncompleted contracts	$ 8,854,733	$ 16,001,335
Estimated earnings	1,740,049	3,338,030
	$ 10,594,782	$ 19,339,365
Less: Billings to date	10,475,947	23,064,745
	$ 118,835	$ (3,725,380)

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2009 and 2008, under the following captions were:

	2009	2008
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 485,403	$ 7,748
Billings in excess of costs and estimated earnings on uncompleted contracts	(366,568)	(3,733,128)
	$ 118,835	$ (3,725,380)

Costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings relate to contracts in progress and are included in the accompanying Consolidated Balance Sheets as current assets and current liabilities, respectively, as they will be liquidated in the normal course of contract completion, although completion may require more than one year.

Contracts with some customers provide for a portion of the sales amount to be retained by the customer for a period of time after completion of the contract. Retainages included in accounts receivable were $152,000 as of December 31, 2009, and $126,000 as of December 31, 2008.

Shipping fees charged are included in revenue, whereas sales, use, and other taxes collected from customers are excluded from revenue.

In certain instances (primarily for engineered-to-order projects) when the goods have been completed, revenue is recognized before delivery has occurred (commonly referred to as “bill-and-hold” transactions). In such circumstances, among other things, risk of ownership has passed to the buyer, the buyer has made a written request that the completed goods be held for future delivery as scheduled and designated by them, and no additional performance obligations exist by the Company. For these transactions, the completed goods are segregated and contracted billing and credit terms are followed. These transactions require management to assess whether the amounts due are fixed and determinable, collection is reasonably assured, and no future performance obligations exist. These assessments are based on the terms of the agreement with the customer, past history, and credit worthiness of the customer. If management determines that collection is not reasonably assured or future performance obligations exist, revenue recognition is deferred until these conditions are satisfied.

For the year ended December 31, 2009, revenue of $1,226,800 attributable to five customers was recorded prior to delivery as bill-and-hold transactions. For the year ended December 31, 2008, revenue of $3,831,400 attributable to fifteen customers was recorded prior to delivery as bill-and-hold transactions. For the year ended December 31, 2007, revenue of $8,777,400 attributable to fourteen customers was recorded prior to delivery as bill-and-hold transactions. As of December 31, 2009, 2008, and 2007, accounts receivable related to bill-and-hold transactions of $228,700, $998,300, and $1,155,300, respectively, were outstanding, and the receivables for these revenues were subsequently paid.

Trade Accounts Receivable – Trade accounts receivable, reduced by a reserve for doubtful accounts, are reported at the resulting net realizable value on the Consolidated Balance Sheets. The Companies' reserves for doubtful accounts are determined based on a variety of factors, including length of time receivables are past due, customer credit ratings, financial stability of customers, past customer history, historical trends, and market conditions. Accounts are evaluated on a regular basis; and reserves are established as deemed appropriate, based on the above criteria. Increases to the reserves are charged to the provision for doubtful accounts, and reductions to the reserves are recorded when receivables are written off or subsequently collected.

Inventories – The Company's inventories are recorded at the lower of cost on a last-in, first-out ("LIFO") basis or market. Cost of the domestic subsidiaries' inventories is determined on a first-in, first-out ("FIFO") basis; and they are not significant to the consolidated financial statements. Cost includes material, labor, and manufacturing burden required in the production of products. Under the FIFO method of accounting, which approximates current cost, Company inventories would have been $9,232,200, $14,696,600, and $14,415,800 higher than those reported as of December 31, 2009, 2008, and 2007, respectively. A reduction in inventory quantities during 2009 resulted in liquidation of LIFO quantities recorded at lower costs prevailing in prior years compared with the cost of current purchases. The effect was to decrease cost of sales, which increased net income by $1,054,200.

Inventories of Mueller B.V. were $12,263,335 and $13,138,446 as of December 31, 2009 and 2008, respectively, and are recorded at the lower of cost on a first-in, first-out ("FIFO") basis, or market.

Intercompany profits in inventory have been eliminated in the preparation of the consolidated financial statements for the years ended December 31, 2009 and 2008.

Research and Development – Research and development costs are charged to expense as incurred and were $762,300 during 2009, $976,600 during 2008, and $591,000 during 2007.

Depreciation Policies – The Companies provide for depreciation expense using principally the double-declining-balance method for new items and the straight-line method for used items. Depreciation expense was $7,277,000, $5,609,000, and $4,020,000 for the years ended December 31, 2009, 2008, and 2007, respectively. The acquisition of Mueller B.V. contributed to the higher depreciation expense during 2009. The economic useful lives within each property classification are as follows:

	Years
Buildings	33 – 40
Land improvements	10 – 20
Fabrication equipment	5 – 10
Transportation, office, and other equipment	3 – 10

Maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of assets retired are removed from the accounts, and any resulting gains or losses are recorded in the Consolidated Statements of Income.

Impairment of Plant and Equipment – Plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is evaluated by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is determined by measuring the amount by which the carrying amount of the asset exceeds the fair value of the asset as determined by the future net undiscounted cash flows. As of December 31, 2009 and 2008, there were no impairments.

Earnings per Common Share – The following table sets forth the computation of basic and diluted earnings per common share:

	2009	2008	2007
Net income	$ 424,287	$ 4,110,290	$ 9,086,445
Shares for basic earnings per common share – Weighted-average shares outstanding	1,191,355	1,165,514	1,153,482
Dilutive effect of restricted stock	2,726	18,762	19,892
Shares for diluted earnings per common share – Adjusted weighted-average shares outstanding	1,194,081	1,184,276	1,173,374
Earnings per common share:			
Basic	$ 0.36	$ 3.53	$ 7.88
Diluted	$ 0.36	$ 3.47	$ 7.74

Comprehensive Income – The components of other comprehensive income (loss) for the years ended December 31, 2009, 2008, and 2007, were as follows:

	2009	2008	2007
Foreign currency translation adjustment	$ 493,438	$ (347,800)	$ (3,234)
Tax	–	–	–
Foreign currency translation adjustment, net of tax	$ 493,438	$ (347,800)	$ (3,234)
Change in pension liability	$ 6,754,411	$(15,483,374)	$ 201,039
Tax	(2,600,449)	5,961,099	164,537
Change in pension liability, net of tax	$ 4,153,962	$ (9,522,275)	$ 365,576
Swap valuation	–	(422,120)	–
Amortization on de-designated hedges	$ 109,440	$ –	$ –
Other comprehensive income (loss)	$ 4,756,840	$(10,292,195)	$ 362,342

The tax amount for the change in pension liability for 2007 includes a $241,937 deferred tax asset due to a change in the effective tax rate from 2006 and a $77,400 decrease in the deferred tax asset related to the reduction in the pension liability.

Statements of Cash Flows – For purposes of the Consolidated Statements of Cash Flows, the Company considers investments with an original maturity of three months or less to be cash equivalents.

Interest and income tax payments made during the three years ended December 31, 2009, were as follows:

	2009	2008	2007
Interest payments	$ 2,240,700	$ 903,600	$ 77,300
Income tax payments	$ 3,002,226	$ 1,652,400	$ 3,592,700
Non-cash activities related to investing activities:			
Seller financing	$ –	$ 12,982,300	$ –
Stock issued	$ –	$ 1,472,000	$ –
Change in equity related to swap position	$ –	$ (422,100)	$ –
Note Receivable on sale of joint venture	$ 640,000	$ –	$ –

Shareholders' Investment – The following table sets forth the analysis of common stock issued and held as treasury stock:

	Shares	
	Common	Treasury
Balance – December 31, 2006	1,394,038	208,915
Restricted stock issued	14,013	–
Treasury stock acquisition	–	574
Balance – December 31, 2007	1,408,051	209,489
Restricted stock issued	16,509	–
Common stock issued	32,000	–
Treasury stock acquisition	–	1,441
Balance – December 31, 2008	1,456,560	210,930
Restricted stock issued	20,716	–
Common stock issued	4,135	–
Restricted stock forfeitures	–	4,252
Balance – December 31, 2009	1,481,411	215,182

Goodwill, Intangibles, and Other Assets – Amortizable intangible assets with definite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is evaluated by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is determined by measuring the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Goodwill is allocated to one reporting unit for goodwill impairment testing and is tested annually as of November 30, or more frequently should events or changes in circumstances indicate that the carrying amount may not be fully recoverable. These impairment tests are impacted by judgments as to future cash flows and other considerations. If considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets.

Fair Value of Financial Instruments – Financial instruments consist mainly of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and bank borrowings. These instruments are short-term in nature and their carrying amount approximates fair value. The Company estimated the fair value of long-term debt at December 31, 2009, based upon borrowing rates available for indebtedness with similar terms and average maturities, and believes the carrying amount approximates its fair value. The Company estimated the fair value of interest rate swaps by using pricing models developed based on the Euribor swap rate and other observable market data.

Recent Accounting Pronouncements – The Financial Accounting Standards Board (FASB) issued ASU 2009-01 – "Amendments Based on Statement of Financial Accounting Standards No. 168—The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles," in June 2009 to codify in ASC 105 – "Generally Accepted Accounting Principles," FASB Statement 168 – "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles," which was issued to establish the Codification as the sole source of authoritative U.S. GAAP recognized by the FASB, excluding SEC guidance, to be applied by nongovernmental entities. The guidance in FASB ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Applying the guidance in FASB ASC 105 did not impact the consolidated financial condition and results of operations of the Company. References to pre-Codification GAAP have been replaced with ASC references in these Notes to Consolidated Financial Statements.

In December 2007, the FASB issued new guidance within ASC 805 – "Business Combinations" that replaces previous guidance on this topic and applies to all transactions or other events in which an entity obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration. The new provisions establish principles and requirements for how the acquirer recognizes and measures identifiable assets acquired, liabilities assumed, any noncontrolling interest and goodwill acquired, and also provide for disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Additional amendments address the recognition and initial measurement, subsequent measurement, and disclosure of assets and liabilities arising from contingencies acquired as part of a business combination. The newly issued guidance was effective for fiscal years beginning after December 15, 2008, and is applied prospectively to business combinations completed on or after that date. The adoption did not have a material effect on the consolidated financial statements.

In March 2008, the FASB issued an amendment to FASB ASC 815 – "Derivative and Hedging" that requires enhanced disclosures about an entity's derivative and hedging activities, including how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This amendment is effective for fiscal years beginning January 1, 2009. The adoption did not have a material effect on the consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05 – "Measuring Liabilities at Fair Value" that amends ASC 820 – "Fair Value Measurements and Disclosures." ASU No. 2009-05 provides clarification for the valuation techniques available when valuing a liability when a quoted price for an identical liability is not available and clarifies that no adjustment is necessary related to the existence of restrictions that prevent the transfer of the liability. The amendments in this update require the use of valuation techniques that use the quoted price of an identical liability when traded as an asset, or quoted prices for similar liabilities when traded as assets. The guidance provided in ASU No. 2009-05 is effective for fiscal years beginning January 1, 2010. The adoption did not have a material effect on the consolidated financial statements.

Reclassifications – Certain reclassifications of prior years' data have been made to conform with current year classifications.

(2) Acquisitions:

On April 10, 2008, the Company entered into a definitive Share Purchase Agreement ("SPA") with Rollbas B.V. ("Rollbas") to purchase all of the outstanding shares of Paltrok Beheer B.V. ("Paltrok"), a wholly owned Dutch subsidiary of Rollbas. The closing date was April 18, 2008, and the results of Paltrok's operations have been included in the consolidated financial statements since that date.

On April 18, 2008, the Company purchased all of the outstanding shares of Paltrok Beheer B.V. The aggregate purchase price was $14,121,000 (including transaction costs of $901,000). The purchase price included $7,750,000 in cash and a loan of $6,371,000 from Rollbas. Rollbas is to be repaid annually from, as defined, cash flows generated by Paltrok until the loan is paid in full.

After the loan is paid in full, the SPA provides for contingent consideration payable to Rollbas on an annual basis from, as defined, cash flows of Paltrok. If, within the five-year period beginning December 31, 2007, contingent consideration is at least $7,486,000 or a higher amount calculated from the payout formula, then no additional amount shall be payable. In the event that, within the five-year period, contingent consideration is less than $7,486,000, then the period to earn contingent consideration will be extended for two additional years. If, within the two-year period, the contingent consideration reaches at least $7,486,000 or the two-year period ends, then no additional amount shall be payable. Any contingent consideration earned will be recognized as additional acquisition cost when paid and will be recorded as goodwill. For the year ending December 31, 2009, no contingent consideration was earned.

On September 30, 2008, the Company executed a definitive Share Purchase Agreement ("Agreement") with KaJeMa Beheer B.V. ("KaJeMa") to purchase all of the outstanding shares of the MEKO companies ("MEKO"), which are Dutch operating companies and an Asian trading company. The closing date was October 1, 2008, and the results of the MEKO companies' operations have been included in the consolidated financial statements since that date.

On October 1, 2008, the Company purchased all the outstanding shares of the MEKO companies. The assets acquired included approximately $11,255,000 of intangible assets, including approximately $5,926,000 of goodwill. The intangible assets were measured at their fair values at the date of purchase and, excluding goodwill, are being amortized on a straight-line basis over their estimated remaining useful lives, which range from three to ten years.

The aggregate purchase price was $14,020,000 (including transaction costs of $1,112,000). The purchase price included cash in the amount of $5,400,000, a loan of $7,148,000 from KaJeMa, and 32,000 shares of the Company's common stock valued at $1,472,000. The value of the shares of the Company's common stock issued was determined based on the closing price as of October 1, 2008.

Paltrok and the MEKO companies are all wholly owned subsidiaries of Mueller B.V., a wholly owned Dutch holding company established by the Company in 2008. The owner of KaJeMa ("Seller") is an employee and has the responsibility to manage the daily operations of Mueller B.V. and its subsidiaries.

The Agreement also includes an employment contract with the Seller and a noncompetition agreement. The employment contract has an indefinite time period and provides for base compensation, plus a bonus based on the profitability of the consolidated results of Mueller B.V. Under the Agreement, the Seller is eligible for additional compensation of $5,640,000 if an 8% compound growth rate in net income of Mueller B.V. is achieved over ten years beginning with the year 2009 and starting from a base of $7,281,000 of net income. For every one percentage point over an 8% growth rate, $705,000 will be added to the $5,640,000; and for each one percentage point below an 8% growth rate, $705,000 will be deducted from the $5,640,000. There will be no additional compensation if the compound annual growth rate over the ten-year period is equal to or less than 4%. For the year ending December 31, 2009, no additional compensation was recorded.

The total additional compensation earned is due and payable in one amount at the end of the twelve-year period ending December 31, 2020. The Company has the option to defer the payment for an additional five-year period, and interest will be at a rate of Euribor plus 2%. In the event that the Seller voluntarily terminates his employment or is terminated for cause during the ten-year period, no additional compensation will be paid. In the event that the Seller's employment is terminated for reasons other than cause, any payment will be by a predetermined calculation.

The acquisitions discussed above include a manufacturing company and sales, service, and rental companies primarily serving the dairy farm equipment market and were made to increase the Company's presence in Europe and to facilitate growth in international markets.

The purchase prices of Paltrok and MEKO exceeded the estimated fair values of the assets acquired and liabilities assumed as of the purchase dates. The excess in both cases was recorded as goodwill in the Company's records. The transactions as of the acquisition dates were recorded on the Company's records as follows:

	Paltrok	MEKO
Current assets	$ 11,015,978	$ 17,980,082
Property and equipment	11,056,826	20,260,944
Intangible asset backlog	1,227,114	751,631
Other intangible assets	–	4,577,974
Goodwill	3,099,141	5,925,638
Other assets	434,336	465,239
Total assets acquired	$ 26,833,395	$ 49,961,508
Current liabilities	$ 6,485,010	$ 20,984,601
Long-term debt	4,109,859	13,236,524
Deferred taxes	1,579,389	1,276,372
Other liabilities	538,366	443,968
Total liabilities assumed	$ 12,712,624	$ 35,941,465
Purchase Price	$ 14,120,771	$ 14,020,043

The goodwill of $8,867,500 and $8,887,463 as of December 31, 2009 and 2008, respectively, on the Consolidated Balance Sheets varies from the goodwill amounts shown above due to variations in the Eurodollar exchange rate from the acquisition dates until the respective year-end.

The following unaudited proforma summary presents consolidated financial information as if Paltrok and the MEKO companies had been acquired at the beginning of each period presented. The proforma consolidated financial information does not necessarily reflect the actual results that would have occurred had the acquisitions taken place on January 1, 2007, or of future results of operations of the combined companies under ownership and operation of the Company.

	Unaudited 2008	Unaudited 2007
Net sales	$275,473,000	$307,871,000
Net income	$ 10,190,000	$ 12,764,000
Earnings per common share – Basic	$ 8.74	$11.07
Diluted	$ 8.60	$10.88

(3) Goodwill and Intangible Assets:

Intangible assets as of December 31, 2009 and 2008, consisted of the following and are included in other assets on the Consolidated Balance Sheets:

	Brand Names	Customer Relationships	Backlog	Total
Balance at acquisition date	$ 1,573,200	$ 2,929,400	$ 1,929,100	$ 6,431,700
Amortization 2008	75,200	72,400	1,497,100	1,644,700
Balance as of December 31, 2008	$ 1,498,000	$ 2,857,000	$ 432,000	$ 4,787,000
Amortization 2009	314,400	327,000	439,000	1,080,400
Foreign currency fluctuation	25,400	49,300	7,000	81,700
Balance as of December 31, 2009	$ 1,209,000	$ 2,579,300	$ –	$ 3,788,300

Average amortization periods for brand names and customer relationships are six and nine years, respectively. Aggregate amortization of intangible assets was $1,080,400 and $1,644,700 for the years ended December 31, 2009 and 2008, respectively. Estimated aggregate amortization for the next five years and thereafter is as follows:

2010	$ 641,500
2011	617,700
2012	546,500
2013	546,500
2014	491,600
Thereafter	944,500
	$ 3,788,300

The changes in the carrying amount of goodwill for the year ended December 31, 2009 and 2008, were as follows:

Balance as of January 1, 2008	$ –
Acquisition of Paltrok Beheer B.V.	3,099,100
Acquisition of MEKO	5,925,600
Foreign currency fluctuation	(137,200)
Balance as of December 31, 2008	$ 8,887,500
Foreign currency fluctuation	(20,000)
Balance as of December 31, 2009	$ 8,867,500

As of December 31, 2009 and 2008, goodwill was not impaired.

(4) Retirement Plans:

The Company has a Profit Sharing and Retirement Savings Plan [401(k) plan] in which substantially all domestic employees are eligible to participate. The plan provides for a match of employees' contributions up to a specified limit. The plan also has a profit-sharing feature whereby an additional match is made if net income reaches predetermined levels established annually by the Board of Directors. The assets of the plan are deposited with a trustee and are invested at the employee's option in one or more investment funds. Total Company contributions to the plan were $425,600 for 2009, $625,761 for 2008, and $1,684,400 for 2007.

The Company has pension plans covering domestic employees who are represented by a bargaining unit and employees who are not represented by a bargaining unit. Benefits under the plans are based on a flat benefit formula and final average pay, respectively. Employees not represented by the bargaining unit that are first hired after December 31, 2006 will not be covered under the applicable pension plan. Employees represented by the bargaining unit that are first hired after June 30, 2007, will not be covered under the applicable pension plan.

Mueller B.V. has pension plans covering employees who are represented by a union and employees who are not represented by a union. The plans are defined contribution plans, and contributions included in the accompanying Consolidated Statements of Income were $1,290,000 for 2009 and $612,400 for 2008.

Total domestic pension expense under the plans was $4,175,000 for 2009, $2,161,000 for 2008, and $1,966,000 for 2007. Management's policy is to fund pension contributions that are currently deductible for tax purposes. Contributions of $2,886,000 will be made during 2010. The Company uses a January 1 measurement date for its plans.

The following table sets forth the required disclosures for the domestic pension plans as of December 31:

	2009	2008
Change in Projected Benefit Obligation –		
Benefit obligation as of beginning of year	$ 72,976,000	$ 72,156,000
Service cost	1,600,000	1,963,000
Interest cost	4,860,000	4,550,000
Plan amendments	–	999,000
Actuarial (gain)	(1,864,000)	(4,140,000)
Benefits paid and expenses	(2,913,000)	(2,552,000)
Benefit obligation as of end of year	$ 74,659,000	$ 72,976,000
Change in Plan Assets –		
Fair value of plan assets as of beginning of year	$ 48,588,000	$ 57,714,000
Actual return on plan assets	7,176,000	(14,273,000)
Employer contributions	3,824,000	7,699,000
Benefits paid and expenses	(2,913,000)	(2,552,000)
Fair value of plan assets as of end of year	$ 56,675,000	$ 48,588,000
Funded Status as of End of Year	$(17,984,000)	$(24,388,000)

Components of pension expense for the three years were:

	2009	2008	2007
Service cost	$ 1,600,000	$ 1,963,000	$ 1,717,200
Interest cost	4,860,000	4,550,000	4,051,700
Expected return on plan assets	(4,128,000)	(5,033,000)	(4,618,900)
Amortization of prior service cost	106,000	83,000	142,200
Recognized net actuarial loss	1,737,000	598,000	673,800
Net periodic pension expense	$ 4,175,000	$ 2,161,000	$ 1,966,000

Projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were as follows as of December 31:

	2009	2008
Projected benefit obligations	$74,659,000	$72,976,000
Accumulated benefit obligations	$70,988,000	$67,575,000
Fair value of plan assets	$56,675,000	$48,588,000

Weighted average assumptions used to determine benefit obligations as of December 31 were as follows:

	2009	2008
Discount rate	6.50%	6.80%
Rate of compensation increase	2.00%	2.00%

Weighted average assumptions used to determine net periodic pension expense for the three years ended December 31 were as follows:

	2009	2008	2007
Discount rate	6.80%	6.42%	5.93%
Expected long-term return on plan assets	8.37%	8.50%	8.50%
Rate of compensation increase	2.00%	3.00%	3.00%

Pension expense is calculated based upon a number of actuarial assumptions established on January 1 of the applicable year (detailed in the table above), including the weighted average discount rate, the expected long-term rate of return on plan assets, and the rate of increase in future compensation levels for the applicable plan. Discount rates were determined by creating hypothetical portfolios of high-quality bonds available without call features and in U.S. dollars as of the measurement date. These portfolios were constructed in such a way that all expected benefit payments from the plans could be provided by the coupon and maturity payments of the bonds as they become payable. Although the match could not be exact, the portfolios were constructed so that the excess bond payments were held to a minimum and were paid out as soon as possible. These excess assets were assumed to earn no reinvestment return so that the underlying discount rate was not artificially increased by these hypothetical returns. The discount rate used to determine pension expense was increased from 6.42% for 2008 to 6.80% for 2009. The effect of the rate increase was to decrease pension expense by $342,005 for 2009. In developing the expected long-term rate of return assumption for plan assets (which consist mainly of U.S. equity and fixed income securities), input was considered from the actuaries and the investment advisors. The rate is intended to reflect the average rate of return expected to be earned on the funds invested or to be invested to provide plan benefits. In determining the rate, appropriate consideration was given to historical performance of the major asset classes held or anticipated to be held by the plans and the forecast for future rates of return for those asset classes. The long-term rate of return assumption was 8.37% for 2009 and 8.50% for 2008.

The Company has adopted a pension investment policy designed to achieve an adequate funding status based on expected benefit payouts and to establish an asset allocation that will meet or exceed the long-term rates of return assumptions, while maintaining a prudent level of risk. The Company uses the services of outside consultants in setting appropriate asset allocation targets and monitoring investment performance. Plan assets are invested in equity and fixed income securities and cash.

Within the equities asset class, the investment policy provides for investments in a broad range of publicly traded securities, including both domestic and ADRs diversified by value, growth, and capitalization. Within the fixed income class, the investment policy provides for investments in a broad range of high-quality corporate debt securities and U.S. government securities, in addition to pooled separate accounts maintained by an insurance carrier.

The weighted average asset allocations of the pension plans as of December 31 were as follows:

	2009	2008
Asset Category:		
Fixed income	48%	53%
Equities	50%	42%
Other	2%	5%
	100%	100%

The long-term asset allocation on average will approximate 40% in fixed income securities and 60% in equities. The objective on a long-term basis is to achieve an excess return over the actuarial assumptions for the expected long-term rates of return on plan assets. The investment strategy employed is a long-term risk-control approach using diversified investment options with no exposure to volatile investment options, such as financial futures, derivatives, etc. The plans use a diversified allocation of equity and fixed income securities that is customized to each plan's cash flow benefit needs.

Assets are categorized into three levels, based upon the assumptions (inputs) used to value the assets in accordance with the fair value hierarchy established in FASB ASC 820. The following table summarizes the fair value of the Company's plans' assets as of December 31, 2009:

Asset Category	Market Value at 12-31-09	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & Cash Equivalents	$ 1,985,000	$ 1,166,000 [a]	$ 819,000 [d]	$ –
Equity Securities:				
Value	13,315,000	13,315,000 [b]	–	–
Growth	14,577,000	14,286,000 [c]	291,000 [e]	–
Pooled Separate Accounts	13,233,000	–	13,233,000 [f]	–
Fixed Income Securities	13,032,000	180,000	12,852,000 [g]	–
General Investment	533,000	–	–	533,000 [h]
Total Plan Assets	$ 56,675,000	$ 28,947,000	$ 27,195,000	$ 533,000

(a) The assets are held in a fund guaranteed or backed by the U.S. government.

(b) The assets consist of primarily medium to large-cap domestic equities and ADRs. No single issue will exceed 5% of the market value of the portfolio.

(c) The assets consist of medium to large-cap domestic equities and ADRs. No single issue will exceed 5% of the market value of the portfolio.

(d) This pooled separate account invests mainly in short-term securities, such as commercial paper. Security prices are obtained from a pricing service.

(e) This pooled separate account invests mainly in domestic large-cap growth stocks. While the underlying asset values are determined by quoted prices, the net asset value of the separate account is not publicly quoted. Security prices are obtained from a pricing service.

(f) This category consists of two pooled separate accounts. One account invests in a mutual fund, which is a bond fund. The fair value of the mutual fund is publicly quoted and is used in determining the net asset value of the pooled separate account, which is not publicly quoted. The other account is a pooled separate account that invests primarily in fixed income securities, such as asset-backed securities, residential mortgage-backed securities, commercial mortgage-backed securities, and corporate bonds. The majority of the underlying securities have observable Level 2 pricing inputs, including quoted prices for similar assets in active or nonactive markets. Security prices for both accounts are obtained from a pricing service.

(g) The assets include issues of the U.S. government and its agencies and high-quality corporate issues. The maximum percentage holding for a single corporate issue is 5% of the market value of the portfolio.

(h) General account assets consist primarily of bonds (both public and private), commercial mortgages, and mortgage-backed securities.

The change in fair value for the assets of the General Account, valued using significant unobservable inputs (Level 3) for 2009, was due to the following:

Balance – January 1, 2009	$ –
Transfers in and/or out of Level 3	476,000
Total realized/unrealized gains	3,000
Net purchases, sales, and settlements	54,000
Balance – December 31, 2009	$ 533,000

Pension benefits expected to be paid over the next ten years are as follows:

2010	$ 3,322,000
2011	3,470,000
2012	3,827,000
2013	3,931,000
2014	4,207,000
2015 through 2019	25,949,000
	$ 44,706,000

Included in accumulated other comprehensive loss as of December 31, 2009, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized prior service costs of $927,000 ($570,100, net of tax) and unrecognized actuarial losses of $22,918,000 ($14,094,600, net of tax). Included in accumulated other comprehensive loss as of December 31, 2008, are the following amounts that had not yet been recognized in net periodic pension expense: unrecognized prior service costs of $1,033,000 ($635,300, net of tax) and unrecognized actuarial losses of $29,566,000 ($18,183,100, net of tax). The prior service cost and actuarial loss, included in accumulated other comprehensive loss and expected to be recognized in net periodic pension expense during the year ended December 31, 2010, are $147,000 and $1,238,000, respectively.

(5) Income Taxes:

The provision (benefit) for taxes on income before income taxes included:

	2009	2008	2007
Current tax expense	$ (988,600)	$ 961,300	$ 5,468,100
Deferred, net	(163,900)	1,315,500	36,600
Valuation allowance – change	(131,200)	72,600	3,300
	$ (1,283,700)	$ 2,349,400	$ 5,508,000

Deferred tax assets and liabilities arise from differences between financial reporting and tax reporting of assets and liabilities that most often result from differences in the timing of income and expense recognition. The detail of the deferred tax assets and liabilities as of December 31, 2009 and 2008, is shown below:

	2009	2008
Deferred Tax Assets:		
Workers compensation	$ 283,200	$ 316,600
Vacation	727,700	1,353,800
Warranty	164,300	237,900
Doubtful accounts	55,700	126,600
Pensions	6,601,700	8,776,900
Healthcare benefits	143,000	478,900
Inventory	203,300	764,800
Tax attribute carryforward	1,487,400	–
Other	678,700	653,400
	$ 10,345,000	$ 12,708,900
Deferred Tax Liabilities:		
Amortization of intangibles	(966,000)	(1,221,100)
Depreciation	(3,523,400)	(3,269,600)
Net	$ 5,855,600	$ 8,218,200
Valuation allowance	–	(131,200)
Net Deferred Tax Assets	$ 5,855,600	$ 8,087,000

As of December 31, 2009, net current deferred tax assets were $1,721,700; net noncurrent deferred tax assets were $6,378,100; and net noncurrent deferred tax liabilities were $2,244,200. As of December 31, 2008, net current deferred tax assets were $2,833,600; net noncurrent deferred tax assets were $7,997,500; net current deferred tax liabilities were $110,100; and net noncurrent deferred tax liabilities were $2,502,800, all of which were offset by a valuation allowance of $131,200. On the accompanying Consolidated Balance Sheets, net current deferred tax assets are included in prepayments, net current deferred tax liabilities are included in accrued expenses – other, and net noncurrent deferred tax liabilities are included in other long-term liabilities. Income taxes receivable at December 31, 2009 and 2008, were $2,569,900 and $1,697,400, respectively, and are included in accounts receivable on the accompanying Consolidated Balance Sheets.

The Company's deferred income tax assets include certain future tax benefits. As of December 31, 2009, deferred tax assets included $628,200 related to state net operating losses, which expire between the years 2014 and 2029. General business tax credits at December 31, 2009, of $859,200 are included in deferred tax assets and expire between the years 2026 and 2029. The Company records a valuation allowance against any portion of those deferred income tax assets when it believes, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. A valuation allowance related to Mueller Montaña capital loss credits was reversed in 2009 upon the sale of the Company's 50% ownership interest in the joint venture. Management believes the Company's future taxable income will be sufficient for full realization of the net deferred tax asset.

A reconciliation between the expected income tax expense at the statutory federal income tax rate (34%) and the reported income tax expense for each of the three years ended December 31, 2009, follows:

	2009	2008	2007
Statutory federal income tax expense	$ (182,600)	$ 2,149,700	$ 4,974,600
Increase (decrease) in taxes resulting from:			
Tax credits	(227,000)	(267,900)	(227,900)
State tax, net of federal benefit	(185,300)	102,900	670,400
Net unrecognized tax positions	(287,300)	381,700	116,600
International taxes	(370,900)	(145,800)	–
Permanent differences	111,300	130,200	(198,000)
Other, net	(10,700)	(74,000)	169,000
Valuation allowance	(131,200)	72,600	3,300
	$ (1,283,700)	$ 2,349,400	$ 5,508,000

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2009 and 2008, are included in other long-term liabilities on the accompanying Consolidated Balance Sheets:

Balance as of January 1, 2008	$ 940,800
Additions based on tax positions related to the current year	96,300
Additions for tax positions of prior years	285,400
Reductions for tax positions of prior years	–
Settlements or lapse of applicable statutes	–
Balance as of December 31, 2008	$ 1,322,500
Additions based on tax positions related to the current year	118,000
Additions for tax positions of prior years	–
Reductions for tax positions of prior years	–
Settlements or lapse of applicable statutes	(405,300)
Balance as of December 31, 2009	$ 1,035,200

The Company's U.S. federal income tax returns for tax years 2007 and forward remain subject to examination by the Internal Revenue Service. The Internal Revenue Service completed their examination for tax year 2006 during 2009, with no adjustments to taxable income. State statutes vary, but state income tax returns are generally subject to examination from 2004 forward. The unrecognized benefits of $1,035,200 as of December 31, 2009, would affect the Company's effective tax rate, if recognized. The Company records potential interest and penalties related to uncertain tax positions as a component of income tax expense. Interest and penalty expense recorded was $93,900 for the year ended December 31, 2008, and was not significant for the years ended December 31, 2009 and 2007.

(6) Borrowings:

The Company has a domestic bank borrowing facility of $17,000,000. The facility expires on May 30, 2010, and management intends to renew the facility. Borrowings under the facility incur interest at the 30-day LIBOR Daily Floating Rate plus a rate ranging from 2.25% to 3.25%, depending on the ratio of funded debt to EBITDA, as defined, and are secured by accounts receivable and inventory. As of December 31, 2009, there were no borrowings under the facility; and as of December 31, 2008, $4,668,000 was outstanding under the facility. The Company was in compliance with the borrowing covenant at December 31, 2009.

Mueller B.V.'s operating companies have bank borrowing facilities which total $11,848,000. Borrowings under the facilities are at variable rates of one-month Euribor plus 1.25% to 2.5%. The borrowings are secured by a pledge of receivables and inventory and have a limit on capital expenditures and minimum tangible net worth requirements; and the companies were in compliance with the covenants as of December 31, 2008. Total borrowing under the facilities was $8,032,000 as of December 31, 2009.

As of December 31, 2009, the Companies had notes payable with an outstanding balance of $34,270,600. Listed below is a summary of amounts outstanding for notes payable. The current portion is included in current maturities of long-term debt, and the long-term portion is included in long-term debt on the accompanying Consolidated Balance Sheets. Loans pertaining to Mueller B.V. and its subsidiaries total $28,851,000 as of December 31, 2009; and there is no recourse to Paul Mueller Company from these loans.

	Outstanding Balance	Current Maturities
Mueller B.V. – Note Payable – Acquisition of Paltrok and secured by stock of Paltrok B.V. Note matures in 2013 with a variable rate of Euribor plus 1.1%. The rate at year-end was 1.58%. Payments are made quarterly	$ 2,665,900	$ 888,600
Note Payable – Seller financing of Paltrok acquisition. Interest rate was 0%. Payments made annually from, as defined, cash flows	3,823,400	1,191,600
Note Payable – Seller financing of MEKO companies acquisition secured by Mueller B.V. stock with a fixed rate of 5%. Note matures in 2019. Payments are made annually	6,808,200	716,700
MEKO – Note Payable secured by tanks leased to dairy farmers. Note matures in 2013 with a fixed rate of 6.3%. Payments are made monthly	11,935,300	2,774,200
Paltrok – Notes Payable secured by equipment and certain assets. Notes mature between 2010 and 2017 with a variable rate of Euribor plus 0.7%. The rate at year-end was 1.18%. Payments are made quarterly	751,600	111,100
Paltrok – Mortgage loan secured by land and buildings. Note matures in 2030 with a variable rate of Euribor plus 0.7%. The rate at year-end was 1.18%. Payments are made quarterly	2,866,600	71,700
Notes Payable related to Mueller B.V. and subsidiaries	$ 28,851,000	$ 5,753,900
Bank – Note Payable secured by plant equipment. Note matures in 2013 with a fixed rate of 4.5%. Payments are made annually	$ 3,678,400	$ 861,400
Notes Payable – Certain notes secured by plant or transportation equipment. Notes mature between 2010 and 2012 and contain fixed and variable rates ranging from 0% to 6%. Payments are made monthly	1,741,200	663,300
Domestic Notes Payable	$ 5,419,600	$ 1,524,700
Total Notes Payable	$ 34,270,600	$ 7,278,600

Provisions of the Mueller B.V. note payable ($2,665,900) require bank approval to pay dividends. The MEKO note payable ($11,935,300) has a tangible net worth requirement and a limitation on the annual repayment amount of the Seller's loan in the amount of $6,808,200. The Paltrok notes payable ($3,618,200) have a tangible net worth requirement. The domestic bank notes payable ($5,419,600) have a minimum tangible net worth requirement. The Companies were in compliance with the covenants as of December 31, 2009.

The principal payments of the notes payable as of December 31, 2009, and for future years are listed below:

2010	$ 7,278,600
2011	7,624,300
2012	7,269,200
2013	5,977,100
2014	899,400
Thereafter	5,222,000
	$34,270,600

At December 31, 2009 and 2008, the fair market value of the Seller-financed note at no interest was $329,900 and $589,400, respectively, lower than book value based on current rates for similar obligations.

(7) Guarantees:

The Company has two standby letter-of-credit facilities of $3,000,000 and $1,050,000. As of December 31, 2009, there were standby letters of credit totaling $143,500 and $1,050,000, respectively, issued under these facilities, which will expire within one year. There is a performance bond for $11,416,000, outstanding as of December 31, 2009, issued in connection with a construction project which will expire during the next six months.

The Company's provisions for warranty expense have historically been a relatively consistent percentage of sales. Warranty claims tend to occur shortly after product delivery, as a significant portion of the Company's sales are engineered-to-order products built to customer specifications. A warranty provision is recorded when notification is received of a potential claim based on an estimate of the cost to repair or replace, in addition to a general reserve provision based on a multi-year lag analysis. Warranty claims are reviewed monthly and reserves are adjusted to properly reflect the remaining estimated cost to complete the repair or to provide a replacement. The following is a reconciliation of changes in the warranty reserve for the years ended December 31, 2009 and 2008:

	2009	2008
Beginning balance	$ 1,861,016	$ 1,175,562
Costs incurred to satisfy warranty claims	(1,252,072)	(1,905,695)
Aggregate warranty reserves made	1,045,067	1,395,064
Aggregate changes to warranty reserves	(44,510)	1,196,085
Ending balance	$ 1,609,501	$ 1,861,016

(8) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $3,560,200 and terms exceeding one year. The lease expense for the years ended December 31, 2009, 2008, and 2007, was $842,900, $179,200, and $156,700, respectively. The future minimum lease payments for each of the years subsequent to December 31, 2009, will be:

2010	$ 1,260,800
2011	965,500
2012	695,700
2013	469,600
2014	122,400
Thereafter	46,200
	$ 3,560,200

(9) Segment Data:

The Company has four reportable segments: Dairy Farm Equipment, Industrial Equipment, Field Fabrication, and Transportation. Dairy Farm Equipment segment sales are made by the Company and by Mueller B.V. to independent dealers for resale. Mueller B.V. also sells directly to farmers and provides service for farmers and milk coolers for rent to farmers. Products include milk-cooling and storage equipment and accessories, refrigeration units, and heat recovery equipment for use on dairy farms. The Industrial Equipment segment includes sales of the following products directly to industrial customers: food, beverage, chemical, and industrial processing equipment; industrial heat transfer equipment; biopharmaceutical equipment; pure water equipment; thermal energy storage equipment; and commercial refrigeration equipment. The Field Fabrication segment includes sales of very large, field-fabricated tanks and vessels that cannot be built and shipped from the plant. Typical projects are large stainless steel storage tanks for sanitary and industrial process applications. The Transportation segment includes the delivery of products to customers and backhauls of materials and components. The segment also includes the transportation of components for the Field Fabrication segment and contract carriage for third parties.

Management evaluates performance and allocates resources based on income or loss before income taxes. The accounting policies of the reportable segments are the same as those described in Summary of Accounting Policies (Note 1) to these consolidated financial statements.

Reportable segments are managed separately because they offer different products and serve different markets. Industrial Equipment products have been aggregated because they are designed and built to a customer's specifications, and they use common processes and resources in the Springfield, Missouri, manufacturing facility. Similar economic conditions affect the long-term financial performance of the product lines included in the Industrial Equipment segment. The Dairy Farm Equipment segment includes standard products that are built to stock in the Osceola, Iowa, and Lichtenvoorde, The Netherlands, manufacturing facilities and are available for sale from inventory. The demand for Dairy Farm Equipment products is affected by the economic factors that influence the profitability of dairy farmers. The Field Fabrication segment uses different skills and fabrication methods and requires different technology and expertise than other segments. The Transportation segment is a trucking operation.

Net sales include revenues from sales to unaffiliated and affiliated customers before elimination of intersegment sales. Intersegment eliminations are primarily sales from the Industrial Equipment segment and Transportation segment to the Field Fabrication segment. The Other/Corporate classification includes other revenues, unallocated corporate assets and expenses, and corporate other income (expense).

	2009						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$67,171,837	$ 83,099,230	$20,383,357	$ 3,616,388	$ –	$ (6,752,135)	$167,518,677
Depreciation & amortization expense	$ 4,454,291	$ 2,618,535	$ 333,563	$ 375,089	$ 849,698	$ –	$ 8,631,176
Income (loss) before income tax.	$ 4,172,217	$ (7,516,392)	$ 2,046,969	$ (191,437)	$ 834,203	$ 114,888	$ (539,552)
Assets	$53,851,854	$ 35,446,353	$ 2,900,560	$ 2,231,157	$21,203,336	$ –	$115,633,260
Additions to property, plant & equipment	$ 2,195,790	$ 631,123	$ 46,657	$ 1,265	$ 545,841	$ –	$ 3,420,676

	2008						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$57,783,923	$142,528,152	$14,446,439	$ 6,403,871	$ –	$ (3,280,630)	$217,881,755
Depreciation & amortization expense	$ 2,832,138	$ 3,029,050	$ 444,122	$ 433,649	$ 855,180	$ –	$ 7,594,139
Income (loss) before income tax.	$ 5,435,860	$ (3,530,031)	$ 3,035,690	$ 402,916	$ 987,644	$ –	$ 6,332,079
Assets	$68,181,795	$ 56,911,495	$ 2,721,074	$ 2,634,196	$21,683,939	$ –	$152,132,499
Additions to property, plant & equipment	$ 789,648	$ 1,519,335	$ 68,393	$ 50,164	$ 1,335,350	$ –	$ 3,762,890

	2007						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$26,665,919	$167,966,964	$54,418,666	$ 6,222,600	$ 668,538	$ (14,795,506)	$241,147,181
Depreciation & amortization expense	$ 390,964	$ 2,269,379	$ 475,926	$ 506,715	$ 613,327	$ –	$ 4,256,311
Income (loss) before income tax	$ 1,874,785	$ 5,071,096	$ 7,611,703	$ 280,477	$ (206,750)	$ –	$ 14,631,311
Assets	$12,803,392	$ 67,241,865	$ 5,468,614	$ 2,768,603	$13,849,376	$ –	$102,131,850
Additions to property, plant & equipment	$ 455,933	$ 6,302,095	$ 600,107	$ 142,676	$ 3,032,415	$ –	$ 10,533,226

Revenues from external customers by product category for the three years ended December 31, 2009, were:

	2009	2008	2007
Milk-cooling and storage equipment	$ 62,724,765	$ 52,924,573	$ 24,120,978
Process vessels and tanks	56,284,721	72,727,748	107,879,069
Other industrial equipment	48,509,191	92,229,434	109,147,134
	$167,518,677	$217,881,755	$241,147,181

Revenues from external customers by geographic location are attributed to countries based on the final destination of the goods and for the three years ended December 31, 2009, were:

	2009	2008	2007
United States	$ 87,251,581	$139,915,595	$194,391,851
North America (excluding the U.S.)	7,537,746	14,515,037	8,910,584
Asia and the Far East	9,529,444	23,883,632	31,899,523
The Netherlands	42,162,158	23,231,699	1,146,698
Other EU countries	17,721,643	12,449,780	1,648,259
Europe (non-EU countries)	1,343,537	252,948	150,396
Other areas	1,972,568	3,633,064	2,999,870
	$167,518,677	$217,881,755	$241,147,181

During 2009 and 2008, export sales to any one country were not in excess of 10% of consolidated sales. During 2007, export sales of $27,556,500 were to one country.

During 2009 and 2008, sales to any one customer were not in excess of 10% of consolidated sales. During 2007, sales to an individual customer exceeded 10% of consolidated sales. The sale amount was $29,374,400 and related to the Industrial Equipment segment.

Long-lived assets owned by the Company and its subsidiaries as of December 31, 2009, of $25,688,600 and $38,915,000 were located in the United States and The Netherlands, respectively. Long-lived assets owned by the Company and its subsidiaries as of December 31, 2008, of $28,373,300 and $40,187,800 were located in the United States and The Netherlands, respectively. As of December 31, 2007, all long-lived assets were located in the United States.

(10) Long-Term Incentive Plans:

The Company has two stock-based compensation plans: the 2009 Long-Term Incentive Plan ("Employee Plan") and the Non-Employee Director Stock Option and Restricted Stock Plan ("Director Plan").

The Employee Plan provides for restricted stock, incentive stock options, and nonqualified stock option awards for executives and key employees. An aggregate of 200,000 shares of common stock can be awarded under the Employee Plan.

Under the Director Plan, nonemployee directors can be awarded restricted stock or nonqualified stock options. An aggregate of 60,000 shares are available for awards under the Director Plan.

No stock options are outstanding as of December 31, 2009.

Under the Plans, restricted shares of stock vest five years after the effective date of grant. Compensation expense was computed by multiplying the number of shares granted by the fair market value of the common stock on the date of grant. The expense is amortized ratably over the vesting period.

Compensation expense recognized for the restricted shares was $413,340, $367,875, and $236,742, for the years ended December 31, 2009, 2008, and 2007, respectively. As of December 31, 2009, 69,989 shares of restricted stock were outstanding under the Plans. The total remaining unrecognized stock based compensation cost related to unvested restricted stock as of December 31, 2009, was $1,409,506. This amount will be recognized as expense over a weighted average period of four years.

Changes in the Company's restricted stock for the year ended December 31, 2009, were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2008	54,525	$ 45.80
Granted during the period	20,716	$ 26.00
Vested during the period	(1,000)	$ 29.00
Forfeited during the period	(4,252)	$ 36.51
Nonvested as of December 31, 2009	69,989	$ 40.74

(11) Fair Value Measurements:

On January 1, 2008, the Company adopted FASB ASC 820 – "Financial Value Measurements and Disclosures," the authoritative guidance issued by the FASB on fair-value measurements. As permitted by the guidance, the Company elected to defer implementation of the provisions of the guidance for nonfinancial assets and nonfinancial liabilities until January 1, 2009, except for nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands guidance establishing the following hierarchy for categorizing these inputs:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs)

Level 3 – Significant unobservable inputs

The following table presents fair value measurements as of December 31, 2009:

	Fair Value Measurements			Assets at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments	$ –	$ 422,100	$ –	$ 422,100
Total	$ –	$ 422,100	$ –	$ 422,100

Derivative Instruments – The Company does not engage in the trading of derivative financial instruments except where the Company's objective is to manage the variability of forecasted interest payments attributable to changes in interest rates. In general, the Company enters into derivative transactions in limited situations based on management's assessment of current market conditions and perceived risks. Derivative instruments are recorded on the Consolidated Balance Sheets at their respective fair value.

On May 8, 2008, the Company entered into an interest rate exchange agreement that involved the exchange of a floating interest obligation for a fixed rate, without the exchange of the underlying notional amount of $4,792,600, to mitigate the effects of fluctuations in interest rates on its variable rate debt. Under the swap, the Company pays a fixed interest rate of 4.64% and receives interest at the one-month Euribor rate. The swap agreement has a maturity date of December 1, 2012.

On March 1, 2007, the Company entered into two interest rate exchange agreements that involved the exchange of floating interest obligation for a fixed rate without the exchange of the underlying notional amounts of $3,073,650 and $727,100, respectively. Under the two swap agreements, the Company pays fixed interest rates of 4.35% and 4.48%, respectively, and receives interest at the one-month Euribor rate. The swap agreements have a maturity date of March 1, 2017.

Previously, the Company designated its interest rate exchange agreements as cash flow hedges, whose unrealized fair value gains and losses were recorded to other comprehensive income. Effective December 31, 2009, the Company elected to de-designate all of its interest rate exchange agreements that had been designated as cash flow hedges and elected to discontinue hedge accounting prospectively. As a result, the Company will recognize all gains and losses from prospective changes in derivative fair values immediately in earnings, rather than deferring any such amounts in accumulated other comprehensive income (loss). As a result of discontinuing hedge accounting, such mark-to-market values as of December 31, 2009, remain in accumulated other comprehensive income (loss) as of the de-designation date and will be reclassified to interest expense. As of December 31, 2009, the estimated fair value of the interest rate swaps was a net liability of $422,120 and was included in other long-term liabilities on the Consolidated Balance Sheets.

(12) Shareholder Rights Plan:

On January 26, 2001, the Board of Directors of the Company adopted an Amended and Restated Rights Agreement ("Rights Agreement") and declared a dividend distribution of one Common Share Purchase Right ("Right") for each share of the Company's common stock outstanding on February 15, 2001.

The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock ("Acquiring Person") or announces a tender offer that would result in ownership of 15% or more of the Company's common stock. Initially, each Right will entitle shareholders to buy one share of the Company's common stock at an exercise price of $117.25.

If the Company is acquired in a merger or other business combination and its common stock is changed or exchanged, or if 50% or more of its consolidated assets or earning power is sold, each Right will entitle its holder to purchase, at the Right's then-current exercise price, shares of the acquiring company's common stock having a market value of twice the exercise price. Also, if an Acquiring Person acquires 15% or more of the Company's outstanding common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, common stock of the Company having a market value of twice the exercise price. Under either situation, Rights owned by an Acquiring Person will become null and void.

Prior to acquisition by an Acquiring Person of 15% or more of the Company's common stock, the Rights are redeemable at the option of the independent members (as defined in the Rights Agreement) of the Board of Directors at $0.01 per Right. The Rights will expire on January 29, 2011.

Until a Right is exercised, the holder thereof, as such, has no rights as a shareholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported earnings per share.

(13) Subsequent Events:

The Company has evaluated events and transactions subsequent to the balance sheet date through the date these financial statements were issued, which was March 25, 2010. The following subsequent event occurred.

The Company is a defendant in a breach-of-contract/breach-of-warranty lawsuit filed in February of 2010 concerning a contract that was completed during 2008. The suit alleges damages of $2,850,000. Management intends to vigorously contest this suit and believes that the loss, if any, resulting from the suit will not have a material impact on the Company's financial position, results of operations, or cash flows.

Report of Independent Certified Public Accountants

Board of Directors
Paul Mueller Company and Subsidiaries
Springfield, Missouri

We have audited the accompanying consolidated balance sheets of Paul Mueller Company (a Missouri corporation) and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' investment and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated statements of income, shareholders' investment and comprehensive loss, and cash flows of Paul Mueller Company and subsidiaries for the year ended December 31, 2007, were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 10, 2008.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2009 and 2008 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Paul Mueller Company and subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Kansas City, Missouri
March 25, 2010

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2009 and 2008

Selected Financial Data – Five-Year Summary

	2009	2008	2007	2006	2005
Net sales	$ 167,518,677	$ 217,881,755	$ 241,147,181	$ 152,887,170	$ 138,133,454
Net income	$ 424,287	$ 4,110,290	$ 9,086,445	$ 7,021,750	$ 6,617,176
Earnings per common share:					
Basic	$ 0.36	$ 3.53	$ 7.88	$ 6.10	$ 5.68
Diluted	$ 0.36	$ 3.47	$ 7.74	$ 6.04	$ 5.64
Common shares outstanding	1,266,229	1,245,630	1,198,562	1,185,123	1,162,249
Dividends declared per common share	$ 0.60	$ 2.40	$ 2.40	$ 2.40	$ 2.40
Total assets	$ 115,633,260	$ 152,132,499	$ 102,131,850	$ 92,815,971	$ 55,171,497
Long-term debt	$ 26,991,997	$ 33,763,216	$ 2,080,674	$ 833,967	$ 708,420
Shareholders' investment	$ 24,931,541	$ 20,109,756	$ 27,396,934	$ 20,569,083	$ 21,449,313
Working capital	$ 2,653,000	$ 5,394,000	$ 12,567,481	$ 10,678,008	$ 7,704,895
Book value per common share	$19.69	$16.14	$22.86	$17.36	$18.46
Average number of employees	971	1,398	1,305	948	816

Market and Dividend Information by Quarter

	2009 Quarter Ended				2008 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Market Price of Stock –								
High	$34.00	$27.49	$27.49	$23.00	$64.50	$63.00	$51.50	$46.25
Low	$17.25	$15.90	$16.25	$18.75	$44.00	$48.00	$45.00	$22.00
Cash Dividends –								
Declared per share	$ 0.60	$ 0.00	$ 0.00	$ 0.00	$ 0.60	$ 0.60	$ 0.60	$ 0.60

The Company's common stock is traded over-the-counter based on quotes obtained by market makers from the Pink Sheets. The market price data was obtained from NASDAQ for 2009 and 2008.

Financial Highlights by Quarter (Unaudited)
For the Years 2009 and 2008

(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2009	2008	2009	2008	2009	2008	2009 (a)(b)(c)(d)	2008 (a)(b)(c)
Net sales	$ 44,553	$ 51,855	$ 41,561	$ 50,176	$ 41,049	$ 50,564	$ 40,356	$ 65,287
Gross profit	$ 9,867	$ 8,338	$ 13,750	$ 8,958	$ 10,452	$ 7,424	$ 10,222	$ 16,336
Net (loss) income	$ (818)	$ 1,136	$ 1,350	$ 920	$ (618)	$ 656	$ 510	$ 1,398
Earnings per common share:								
Basic	$(0.69)	$ 0.98	$ 1.13	$ 0.79	$(0.52)	$ 0.57	$ 0.43	$ 1.17
Diluted	$(0.69)	$ 0.97	$ 1.13	$ 0.78	$(0.52)	$ 0.56	$ 0.43	$ 1.16

(a) The results for the fourth quarter of 2009 were favorably affected by a decrease in the LIFO reserve of $489,000 after tax, or $0.41 per share basic and diluted. There was no material LIFO adjustment for the fourth quarter of 2008.

The results for the year ended December 31, 2009, were favorably affected by a decrease in the LIFO reserve of $3,361,000 after tax, or $2.82 per share ($2.81 diluted). There was no material LIFO adjustment for the year ended December 31, 2008.

(b) The full year of 2009, the fourth quarter of 2008, and a portion of the year 2008 included the results of Mueller B.V., a wholly owned Dutch subsidiary. Mueller B.V.'s results have been included since April 18, 2008, when it acquired Paltrok Beheer B.V. Additionally, the MEKO companies were acquired as of October 1, 2008.

Mueller B.V.'s sales were $13,405,000 and $17,325,000 for the fourth quarter of 2009 and 2008, respectively. Net Income was $250,000, or $0.21 per share basic and diluted, and $626,400, or $0.53 per share ($0.52 diluted), for the fourth quarter of 2009 and 2008, respectively. Mueller B.V.'s results for the full year of 2009 included sales of $57,822,000 and $30,871,000 for the partial year of 2008. Net income for the full year of 2009 was $2,941,000, or $2.47 per share (2.46 diluted), and for the partial year of 2008 was $1,315,000, or $1.12 per share ($1.11 diluted).

Mueller B.V.'s net income for the fourth quarter and for the partial year of 2008 was reduced by amortization of an intangible asset (the value of the backlog of the companies acquired during 2008). For the fourth quarter of 2008, amortization was $384,700 after tax, or $0.32 per share (basic and diluted); and for the partial year of 2008, amortization was $1,112,000 after tax, or $0.95 per share ($0.94 diluted).

(c) Selling, general, and administrative expenses attributable to Mueller B.V. included $5,932,000 and $6,526,000 for the fourth quarter of 2009 and 2008, respectively, and $21,929,000 and $7,443,000 for 2009 and for the partial year of 2008, respectively.

(d) The effective tax rates for the fourth quarter of 2009 and the full year of 2009 vary from the statutory rate (34%) due to the tax benefits of the domestic operating losses, tax credits, and the reversal of a valuation allowance.

PAUL MUELLER COMPANY

DIRECTORS

* **MATTHEW T. DETELICH**
President and CEO

** **WILLIAM L. FUERST**
Dean and Henry D. Price Professor of Business – University of Kansas

* **DONALD E. GOLIK**
Chairman of the Board
Executive Vice President and CFO

W. CURTIS GRAFF
President – W. J. Graff & Assoc.

JAMES D. HLAVACEK
Chairman, CEO, and Owner – Corporate Development Institute, Inc.

DAVID T. MOORE
Vice President and Secretary

*** **WILLIAM R. PATTERSON**
Principal – Stonecreek Management L.L.C.

*** **MELVIN J. VOLMERT**
Managing Partner – Ardent Capital L.L.C.

* Executive Committee Member
** Audit Committee Member
*** Executive & Audit Committee Member

CHAIRMAN EMERITUS

PAUL MUELLER

EXECUTIVE OFFICERS

MATTHEW T. DETELICH
President and CEO

DONALD E. GOLIK
Chairman of the Board
Executive Vice President and CFO

DAVID T. MOORE
Vice President and Secretary

WHOLLY OWNED SUBSIDIARIES

MUELLER TRANSPORTATION, INC.

DIRECTORS

MATTHEW T. DETELICH – Chairman
DONALD E. GOLIK
AARON L. OWEN

OFFICERS

AARON L. OWEN – President
DONALD E. GOLIK – Vice President
ALLEN O. CROUCH – Secretary
MICHAEL R. PAYNE – Controller

MUELLER FIELD OPERATIONS, INC.

DIRECTORS

MATTHEW T. DETELICH – Chairman
AARON L. OWEN
DONALD E. GOLIK

OFFICERS

AARON L. OWEN – President
DONALD E. GOLIK – Vice President
ALLEN O. CROUCH – Secretary
MICHAEL R. PAYNE – Controller

MUELLER B.V.

MANAGING DIRECTOR

PAUL MUELLER COMPANY

MUELLER®

TRANSFER AGENT:
COMPUTERSHARE, INC.
250 Royall Street
Canton, MA 02021

Safe Harbor for Forward-Looking Statements

The President's message on pages 2-3 of this Annual Report, contains certain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. All statements regarding future performance, growth, sales and earnings projections, conditions, or developments are forward-looking statements. Words such as "anticipates," "believes," "intends," "expects," "may," "will," "should," "could," "plans," "forecasts," "estimates," "predicts," "projects," "potential," "continue," "outlook," and similar expressions may be intended to identify forward-looking statements.

Actual future results may differ materially from those described in the forward-looking statements due to a variety of factors, including the fact that the worldwide economy generally, and the dairy farm equipment, industrial equipment, field-fabrication markets, and factors affecting the trucking industry specifically are all currently subject to uncertainty, making it difficult to determine if past experience is a good guide to the future. A downturn in the Company's business segments could adversely affect the Company's revenues and results of operations. Other factors affecting forward-looking statements, some of which are identified in the discussion relating to such forward-looking statements, include, but are not limited to, the following: specific economic conditions in the food, dairy, beverage, chemical, pharmaceutical, biotechnological and other process industries, and the international dairy farm equipment market and the impact of such conditions on the Company's customers in such markets; the cyclical nature of some of the Company's markets; milk prices, feed costs, weather conditions, dairy farm consolidation, and other factors affecting the profitability of dairy farmers; the price of stainless steel; the highly competitive nature of the markets for the Company's products, as well as pricing pressures that may result from such competitive conditions; business relationships with major customers and suppliers; the continued operation and viability of the Company's major customers; the Company's execution of internal performance plans; difficulties or delays in manufacturing; cost-reduction and productivity efforts; competing technologies and difficulties in entering new markets, both domestic and foreign; changes in product mix; future levels of indebtedness and capital spending; claims, including, without limitation, warranty claims, product liability claims, charges or dispute resolutions; ability of suppliers to provide materials as needed and the Company's ability to recover any price increases for materials and product pricing; the Company's ability to attract and retain key technical and other personnel; labor relations; the failure of customers to make timely payment; the Companies ability, both domestically and in Europe, to maintain adequate financing for operations; any inadequacy of the Company's intellectual property protection or the potential for third-party claims of infringement; global economic factors, including currency exchange rates; general economic conditions, including interest rates, the rate of inflation, and commercial and consumer confidence; energy prices; governmental laws and regulations affecting domestic and foreign operations, including tax obligations; changes in accounting standards; worldwide political stability; the effects of terrorist activities and resulting political or economic instability, including U.S. military action overseas; and the effect of acquisitions, divestitures, restructurings, product withdrawals, and other unusual events.

The Company cautions the reader that these lists of cautionary statements and risk factors may not be exhaustive. The Company expressly disclaims any obligation or undertaking to release publicly any updates or changes to these forward-looking statements that may be made to reflect any future events or circumstances.

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