2010 Annual Report

Customer Requirements ➧ Process Solution Design ➧ Budgetary Development
Detailed Equipment Design ➧ Component Fabrication ➧ Equipment Manufacturing
Complete Integrated Systems ➧ Modular Construction ➧ Door-to-Door Delivery
Field Installation ➧ Site Fabrication ➧ Start-Up Support ➧ Maintnenance / Repair

Paul Mueller Company

Financial Highlights

Operating Results for the Year

	2010	2009 As restated
Net Sales	$ 129,633,000	$ 167,519,000
Income (Loss) Before Taxes	$ (5,768,000)	$ (1,853,000)
Provision (Benefit) for Income Taxes	3,170,000	(1,666,000)
Net (Loss)	$ (8,938,000)	$ (187,000)
Earnings (Loss) per Common Share:		
Basic	$ (7.50)	$ (0.16)
Diluted	$ (7.50)	$ (0.16)
Dividends Declared per Share	$ 0.00	$ 0.60

Year-End Position

	2010	2009
Total Assets	$ 102,278,000	$ 115,461,000
Working Capital	$ (5,050,000)	$ 2,480,000
Current Ratio	.89 : 1	1.06 : 1
Net Worth	$ 17,823,000	$ 24,759,000
Book Value per Share	$13.81	$19.55
Common Shares Outstanding	1,291,074	1,266,229
Backlog (Unaudited)	$ 31,044,000	$ 31,090,000

Mueller®
Process
Solutions

Dear Shareholder,

Our core markets may have appeared to recover somewhat during 2010 from a retail perspective as seen on Main Street, but the longer term uncertainty of the overall industrial markets resulted in a continued clamp-down on maintenance spending and capital spending, as both remained well below pre-recession levels. As a result, we found that market conditions continued to be challenging throughout 2010, resulting in lower sales and compressed margins. We saw our sales decline 23%, as compared to 2009, to $129,633,000, and we posted a net loss of $8,938,000. These results are disappointing for our shareholders and our employees. We continue to be focused on cost controls in all areas of the business, and we are also extremely vigilant in stopping the sales decline of recent years and positioning the Company to be an active participant when our markets do finally recover.

Results for 2010 were significantly impacted by a non-cash charge of $5,972,000, recorded to establish a valuation allowance for a portion of the Company's deferred tax assets. The charge has been included in the provision for income taxes on the accompanying Consolidated Statements of Income, and the effect was to increase the loss for the year by $5,972,000. The valuation allowance is required by generally accepted accounting principles, as we incurred a cumulative loss before tax for the three-year period ended December 31, 2010.

Our Industrial segment completed 2010 with a 43% reduction in sales versus 2009, resulting in a loss of $10,663,000. This significant and sudden sales reduction was a direct result of our industries' clamp-down on maintenance spending as the recession's effect hit their markets, and the major reduction in overall capital spending plans. As expected, margins declined with the sudden severe contraction.

The 2009 "right sizing" initiative continued in 2010 as we begin to see what the new "normal" for major maintenance and capital spending plans will be going forward. We are transitioning from a product focus to a market focus, which will allow us to differentiate Industrial segment capabilities from our competitors by delivering more value to our core markets. We will focus on the optimum use of our resources in order to strengthen relationships with our customers and be a value-added process solutions provider to our customers. To ensure our competitiveness, there has been an increased level of accountability and emphasis on discretionary spending.

The Field Fabrication segment reported a small profit in 2010 with a 48% decline in sales versus 2009. This segment was challenged due to the lack of capital spending as large field-erected projects were nearly nonexistent. The profitable results were attributed to managing all expenses tightly and the utilization of our resources for expanded scope and repair/maintenance work.

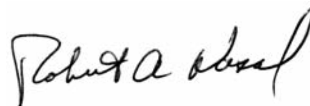
The Transportation segment saw sales decline 19%, resulting in a loss for the year. The major cause was due to the decline in sales from Mueller products. In an attempt to offset this decrease, the sales for external contract carriage were increased 84%. The contract carriage business is very competitive and is lower priced freight than the specialty/oversized loads that are typical of our equipment. Overall, variable operating expenses were well controlled, repairs and maintenance on the fleet were done as necessary to maintain safe operating conditions, and the fuel surcharge covered the higher cost of diesel fuel. The company aircraft was sold in early 2011 as part of our continuing cost-reduction efforts.

Market conditions improved somewhat in 2010 for our domestic Dairy Farm Equipment business. The average milk price for the year was 27% higher than the average milk price for 2009. This increase in milk prices helped loosen the dairymen's purse strings. Sales by our U.S. operations increased by 28% and profitability improved substantially from a break-even performance in 2009. The increase in oil costs drove heightened interest and sales of our heat recovery systems, and sales increased from a small base. Overall, our market position strengthened in a very tough economic climate.

In Europe, we had a good year in a challenging climate, as our sales declined 2% in local currency, but our profitability improved as interest payments declined and our cost control efforts bore results. Our service and leasing business continued to be strong and equipment sales were at 2009 levels. Europe's results include our small but growing brewery sales segment and this market showed good growth in 2010, and we see that continuing in 2011.

The Company initiated the transition of our U.S. operations to the state-of-the-art business IT software platform, JD Edwards EnterpriseOne. This system replaces two very outdated systems and provides a solid platform on which to build financial, operational, and business processes, enabling our teams to better manage their responsibilities and drive efficiencies throughout the business. The use of a single integrated system has contributed to added efficiencies in our overall administration costs and work continues to exploit additional opportunities made available by this upgraded system. We are currently planning the timing of the European conversion for later in 2011.

In April of 2011, I joined the Company as President and CEO. I find that Paul Mueller Company has a team of dedicated and loyal people who know our industries, know our customers, and will go the extra mile to do what is right for our customers. I look forward to earning the trust of our shareholders, employees, customers, and suppliers. We have made progress in preparing the Company for our future challenges; and this progress must continue. I look forward to continuing the hard work to return the Company to a leading innovative position in our markets, ensuring we are providing value to our customers, and securing the future growth and development of our business and employees.



Robert A. Nosal
President and CEO

June 2011

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 (Loss)
For the Years Ended December 31, 2010, 2009, and 2008

	2010	2009 As restated	2008 As restated
Net Sales	$ 129,632,938	$ 167,518,677	$ 217,881,755
Cost of Sales	93,946,367	124,221,543	177,450,042
Gross profit	$ 35,686,571	$ 43,297,134	$ 40,431,713
Selling, General, and Administrative Expenses	39,337,387	42,383,192	34,443,066
Operating income (loss)	$ (3,650,816)	$ 913,942	$ 5,988,647
Other Income (Expense):			
Interest income	$ 42,776	$ 71,837	$ 577,797
Interest expense	(1,862,020)	(2,160,995)	(1,084,563)
Other, net	(107,460)	(358,259)	226,418
Total Other Income (Expense)	$ (1,926,704)	$ (2,447,417)	$ (280,348)
Income (loss) before provision for income taxes and equity in income (loss) of joint ventures	$ (5,577,520)	$ (1,533,475)	$ 5,708,299
Provision (Benefit) for Income Taxes	$ 3,170,330	$ (1,666,326)	2,109,262
Income (Loss) before Equity in Income (Loss) of Joint Ventures	$ (8,747,850)	$ 132,851	$ 3,599,037
Equity in Income (Loss) of Joint Ventures	(190,050)	(319,827)	127,629
Net Income (Loss)	$ (8,937,900)	$ (186,976)	$ 3,726,666
Earnings (Loss) per Common Share:			
Basic	$ (7.50)	$ (0.16)	$ 3.20
Diluted	$ (7.50)	$ (0.16)	$ 3.15

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

Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009 As restated
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,133,891	$ 2,768,094
Accounts receivable, less reserve for doubtful accounts of $1,441,822 for 2010 and $1,008,437 for 2009	19,397,291	20,226,518
Costs and estimated earnings in excess of billings	618,673	485,403
Inventories: Raw materials and components	$ 6,655,915	$ 5,136,156
Work-in-process	2,209,289	1,277,789
Finished goods	9,312,980	10,196,603
	$ 18,178,184	$ 16,610,548
Prepayments	1,669,265	3,054,009
Total Current Assets	$ 40,997,304	$ 43,144,572
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 7,861,531	$ 8,038,352
Buildings	19,378,793	19,536,646
Fabrication equipment	76,753,785	77,190,443
Transportation, office, and other equipment	19,006,078	17,124,848
Construction-in-progress	465,924	2,561,801
	$ 123,466,111	$ 124,452,090
Less: Accumulated depreciation	78,636,697	72,504,273
	$ 44,829,414	$ 51,947,817
Goodwill	8,354,702	8,867,450
Deferred Tax Assets	4,086,686	6,378,130
Other Assets	4,009,990	5,122,787
	$ 102,278,096	$ 115,460,756
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 15,261,243	$ 8,031,961
Current maturities of long-term debt	7,077,274	7,278,619
Accounts payable	6,794,785	6,894,368
Accrued expenses: Income taxes	110,331	–
Payroll and benefits	4,173,345	4,631,440
Vacations	1,213,409	2,680,368
Other	3,116,367	3,152,473
Advance billings	8,092,077	7,628,748
Billings in excess of costs and estimated earnings	208,460	366,568
Total Current Liabilities	$ 46,047,291	$ 40,664,545
Long-Term Pension Liabilities	15,501,260	17,951,968
Long-Term Debt	18,176,949	26,991,997
Other Long-Term Liabilities	4,729,131	5,093,209
Contingencies		
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,507,481 shares for 2010 and 1,481,411 shares for 2009	$ 1,507,481	$ 1,481,411
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	8,818,414	7,846,875
Retained earnings	25,507,180	34,445,080
	$ 35,833,075	$ 43,773,366
Less: Treasury stock – 216,407 shares for 2010 and 215,182 shares for 2009, at cost	(4,019,267)	(3,995,992)
Common stock held by Rabbi Trust – 7,236 shares for 2010 and 4,125 shares for 2009	(188,136)	(107,510)
Accumulated other comprehensive loss	(13,802,207)	(14,910,827)
	$ 17,823,465	$ 24,759,037
	$ 102,278,096	$ 115,460,756

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, 2010, 2009, and 2008

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
12-31-2007, as previously stated	$ 1,408,051	$ 5,438,362	$ 33,753,254	$ (3,827,261)	$ (9,375,472)	$ 27,396,934
Impact of adopting change in accounting for LIFO inventory	–	–	822,383	–	–	822,383
12-31-2007, as restated	$ 1,408,051	$ 5,438,362	$ 34,575,637	$ (3,827,261)	$ (9,375,472)	$ 28,219,317
Net income	–	–	3,726,666	–	–	$ 3,726,666
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)	–	–	–	–	–	$ (6,565,529)
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	$ 35,379,431	$ (3,899,296)	$(19,667,667)	$ 20,548,515
Add (Deduct):						
Net income (loss)	–	–	(186,976)	–	–	$ (186,976)
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	–	–	–	–	–	$ 4,569,864
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	$ 34,445,080	$ (4,103,502)	$(14,910,827)	$ 24,759,037
Add (Deduct):						
Net income	–	–	(8,937,900)	–	–	$ (8,937,900)
Other comprehensive income, net of tax:						
Foreign currency translation adjustment	–	–	–	–	(628,417)	(628,417)
Change in pension liability	–	–	–	–	1,655,814	1,655,814
Amortization on de-designated hedges	–	–	–	–	81,223	81,223
Comprehensive loss	–	–	–	–	–	$ (7,829,280)
Restricted stock issued	22,969	(22,969)	–	–	–	–
Restricted stock forfeitures	–	23,275	–	(23,275)	–	–
Common stock issued to Rabbi Trust	3,101	77,525	–	(80,626)	–	–
Deferred compensation amortization	–	893,708	–	–	–	893,708
Balance – 12-31-2010	$ 1,507,481	$ 8,818,414	$ 25,507,180	$ (4,207,403)	$(13,802,207)	$ 17,823,465

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2010, 2009, and 2008

	2010	2009 As restated	2008 As restated
Cash Flows from Operating Activities:			
Net income (loss)	$ (8,937,900)	$ (186,976)	$ 3,726,666
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in loss (income) of joint ventures	190,050	319,827	(127,629)
Pension liability	721,175	–	–
Bad debt expense	607,783	589,233	332,858
Depreciation and amortization	8,370,950	8,631,176	7,594,139
(Gain) loss on sales of equipment	(875,655)	714	(3,100)
Deferred tax (benefit) expense	(3,813,100)	(163,936)	1,315,507
Deferred tax valuation allowance – change	5,972,199	(131,249)	72,664
Changes in assets and liabilities, net of effect of acquisitions –			
(Increase) decrease in accounts and notes receivable	(600,719)	15,427,643	21,405,882
(Increase) decrease in costs in excess of estimated earnings and billings	(133,270)	(477,655)	(2,118,733)
(Increase) decrease in inventories	(2,020,695)	12,630,602	3,736,203
(Increase) decrease in prepayments	(120,341)	1,414,214	(1,230,279)
(Increase) decrease in other assets	24,587	(1,399,211)	374,705
Increase (decrease) in deferred tax	195,140	–	–
Increase (decrease) in accounts payable	185,238	(2,352,114)	(8,039,247)
Increase (decrease) in accrued expenses	(1,653,943)	(9,138,354)	(3,953,498)
Increase (decrease) in advance billings	538,746	(5,140,409)	(6,185,417)
Increase (decrease) in billings in excess of costs and estimated earnings	(158,108)	(3,366,560)	(4,947,022)
Increase (decrease) in other long-term liabilities	(100,874)	30,308	(3,353,571)
Net Cash (Required) Provided by Operating Activities	$ (1,608,737)	$ 16,687,253	$ 8,600,128
Cash Flows (Requirements) from Investing Activities:			
Cost of acquisitions, including transaction costs, net of cash acquired	$ –	$ –	$ (7,368,498)
Proceeds from sale of investments in joint ventures	–	217,121	–
Proceeds from sales of equipment	2,516	967	8,650
Additions to property, plant, and equipment	(1,027,060)	(3,420,676)	(3,762,890)
Net Cash (Required) by Investing Activities	$ (1,024,544)	$ (3,202,588)	$ (11,122,738)
Cash Flow Provisions (Requirements) from Financing Activities:			
Proceeds from short-term borrowings	$ 8,752,000	$ –	$ 6,053,094
Repayment of short-term borrowings	(696,057)	(7,493,780)	(1,068,199)
Long-term debt proceeds	–	–	8,808,788
Repayment of long-term debt	(7,170,221)	(6,802,504)	(5,090,656)
Dividends paid	–	(747,375)	(2,922,872)
Treasury stock acquisitions	–	–	(72,035)
Net Cash (Required) Provided by Financing Activities	$ 885,722	$ (15,043,659)	$ 5,708,120
Effect of Exchange Rate Changes	113,356	(150,478)	(123,584)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (1,634,203)	$ (1,709,472)	$ 3,061,926
Cash and Cash Equivalents at Beginning of Year	2,768,094	4,477,566	1,415,640
Cash and Cash Equivalents at End of Year	$ 1,133,891	$ 2,768,094	$ 4,477,566

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

Notes to Consolidated Financial Statements December 31, 2010, 2009, and 2008

(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, and the investment was accounted for under the equity method.

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, 2010 and 2009, were as follows:

	2010	2009
Costs incurred on uncompleted contracts	$ 2,439,207	$ 8,854,733
Estimated earnings	432,723	1,740,049
	$ 2,871,930	$ 10,594,782
Less: Billings to date	2,461,717	10,475,947
	$ 410,213	$ 118,835

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2010 and 2009, under the following captions were:

	2010	2009
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 618,673	$ 485,403
Billings in excess of costs and estimated earnings on uncompleted contracts	(208,460)	(366,568)
	$ 410,213	$ 118,835

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. There were no retainages included in accounts receivable as of December 31, 2010. Retainages included in accounts receivable were $152,000 as of December 31, 2009.

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, 2010, revenue of $1,198,200 attributable to five customers was recorded prior to delivery as bill-and-hold transactions. 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. As of December 31, 2010, 2009, and 2008, accounts receivable related to bill-and-hold transactions of $206,000, $228,700, and $998,300, respectively, were outstanding, and the receivables for these revenues were subsequently collected.

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 – Effective January 1, 2010, the Company changed the method of valuing its inventory from the single-pool, dollar value, last-in, first-out ("LIFO") method to the inventory price index computation ("IPIC") method of LIFO. The IPIC method bases inflation measurements on data published by the U.S. Bureau of Labor Statistics. Under the IPIC LIFO method, the Company will no longer be required to reconstruct base year (1973) cost for new parts. The reconstruction of base year costs for new parts results in a degree of variability as the costs are typically reconstructed through comparisons to similar parts. This variability will not be present in the new IPIC LIFO calculation method, which will also significantly reduce the administrative burden of calculating LIFO inventory. Management believes this will provide a more accurate calculation of the LIFO of inventory. The Company applied the change in accounting principle by retrospectively restating prior years' financial statements, resulting in a reduction to net income for the years ended December 31, 2009 and 2008, of $611,200 and $383,600, respectively, and a cumulative increase of $822,400 (net of tax) to beginning retained earnings as of January 1, 2008, related to prior periods.

The effect of the change on previously issued consolidated financial statements for the years ended December 31, 2009 and 2008, was as follows:

	As Reported Under Dollar-Value LIFO Method	As Reported Under IPIC-LIFO Method	Effect of Change
Consolidated Statements of Income – 2009			
Cost of sales	$ 123,227,600	$ 124,221,500	$ 993,900
Income before tax	$ (539,600)	$ (1,533,500)	$ (993,900)
Net Income	$ 424,300	$ (186,900)	$ (611,200)
Consolidated Statements of Income – 2008			
Cost of sales	$ 176,826,200	$ 177,450,000	$ 623,800
Income before tax	$ 6,332,100	$ 5,708,300	$ (623,800)
Net income	$ 4,110,300	$ 3,726,700	$ (383,600)
Consolidated Balance Sheets – 2009			
Inventory	$ 16,891,000	$ 16,610,600	$ (280,400)
Prepayments	$ 2,946,000	$ 3,054,000	$ 108,000
Total assets	$ 115,663,300	$ 115,460,800	$ (202,500)
Retained earnings	$ 34,617,600	$ 34,445,100	$ (172,500)
Consolidated Statements of Cash Flows – 2009			
Net income	$ 424,300	$ (187,000)	$ (611,300)
Decrease in inventory	$ 11,636,700	$ 12,630,600	$ 993,900
Decrease (increase) in prepayments	$ 1,796,900	$ 1,414,200	$ (382,700)
Net cash provided by operating activities	$ 16,687,300	$ 16,687,300	$ –
Consolidated Statements of Cash Flows – 2008			
Net income	$ 4,110,300	$ 3,726,700	$ (383,600)
Decrease in inventory	$ 3,112,400	$ 3,736,200	$ 623,800
Decrease (increase) in prepayments	$ (990,100)	$ (1,230,300)	$ (240,200)
Net cash provided by operating activities	$ 8,600,100	$ 8,600,100	$ –

Inventories of Mueller B.V. were $11,120,872 and $12,263,335 as of December 31, 2010 and 2009, 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, 2010 and 2009.

Research and Development – Research and development costs are charged to expense as incurred and were $814,737 during 2010, $762,302 during 2009, and $976,636 during 2008.

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 $6,749,000, $7,277,000, and $5,609,000 for the years ended December 31, 2010, 2009, and 2008, 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, 2010 and 2009, there were no impairments.

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

	2010	2009 As restated	2008 As restated
Net income (loss)	$ (8,937,900)	$ (186,976)	$ 3,726,666
Shares for basic earnings per common share –			
Weighted-average shares outstanding	1,192,105	1,191,355	1,165,514
Dilutive effect of restricted stock	10,460	45,442	18,762
Shares for diluted earnings per common share –			
Adjusted weighted-average shares outstanding	1,202,565	1,236,797	1,184,276
Earnings (loss) per common share:			
Basic	$ (7.50)	$ (0.16)	$ 3.20
Diluted	$ (7.50)	$ (0.16)	$ 3.15

Comprehensive Income – The components of other comprehensive income (loss) for the years ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Foreign currency translation adjustment	$ (628,417)	$ 493,438	$ (347,800)
Tax	–	–	–
Foreign currency translation adjustment, net of tax	$ (628,417)	$ 493,438	$ (347,800)
Change in pension liability	$ 2,692,380	$ 6,754,411	$ (15,483,374)
Tax	(1,036,566)	(2,600,449)	5,961,099
Change in pension liability, net of tax	$ 1,655,814	$ 4,153,962	$ (9,522,275)
Swap valuation	–	–	(422,120)
Amortization on de-designated hedges	$ 81,223	$ 109,440	$ –
Other comprehensive income (loss)	$ 1,108,620	$ 4,756,840	$ (10,292,195)

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, 2010, were as follows:

	2010	2009	2008
Interest payments	$ 1,867,200	$ 2,240,700	$ 903,600
Income tax payments	$ 495,953	$ 3,002,226	$ 1,652,400
Non-cash activities related to investing activities:			
Seller financing	$ –	$ –	$ 12,982,300
Stock issued	$ –	$ –	$ 1,472,000
Change in equity related to swap position	$ 81,223	$ 109,440	$ (422,100)
Note receivable on sale of joint venture	$ 491,721	$ 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, 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
Restricted stock issued	22,969	–
Common stock issued	3,101	–
Restricted stock forfeitures	–	1,225
Balance – December 31, 2010	1,507,481	216,407

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, 2010, 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.

(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, 2010, 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, 2010, 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 $8,354,702 and $8,867,450 as of December 31, 2010 and 2009, 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	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, 2010 and 2009, consisted of the following and are included in other assets on the Consolidated Balance Sheets:

	Brand Names	Customer Relationships	Backlog	Total
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
Amortization 2010	291,400	302,900	–	594,300
Foreign currency fluctuation	(90,500)	(193,900)	–	(284,400)
Balance as of December 31, 2010	$ 827,100	$ 2,082,500	$ –	$ 2,909,600

Average amortization periods for brand names and customer relationships are six and nine years, respectively. Aggregate amortization of intangible assets was $594,300, $1,080,400, and $1,644,700 for the years ended December 31, 2010, 2009, and 2008, respectively. Estimated aggregate amortization for the next five years and thereafter is as follows:

2011	$ 571,200
2012	505,300
2013	505,300
2014	454,600
2015	320,300
Thereafter	552,900
	$ 2,909,600

The changes in the carrying amount of goodwill for the years ended December 31, 2010, 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
Foreign currency fluctuation	(512,800)
Balance as of December 31, 2010	$ 8,354,700

As of December 31, 2010, 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 $279,000 for 2010, $425,600 for 2009, and $625,761 for 2008.

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. Also, after December 31, 2010, there will be no further accrual of benefits for participants under the pension plan for employees not represented by the bargaining unit and the effect of this curtailment was to reduce the projected benefit obligation by $2,691,000. 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 $1,199,000 for 2010, $1,290,000 for 2009, and $612,400 for 2008.

Total domestic pension expense under the plans was $3,116,000 for 2010, $4,175,000 for 2009, and $2,161,000 for 2008. Management's policy is to fund pension contributions that are currently deductible for tax purposes. Contributions of $3,310,000 will be made during 2011. 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:

	2010	2009
Change in Projected Benefit Obligation –		
Benefit obligation as of beginning of year	$ 74,659,000	$ 72,976,000
Service cost	1,510,000	1,600,000
Interest cost	4,749,000	4,860,000
Curtailments	(2,691,000)	–
Actuarial loss (gain)	2,562,000	(1,864,000)
Benefits paid and expenses	(3,614,000)	(2,913,000)
Benefit obligation as of end of year	$ 77,175,000	$ 74,659,000
Change in Plan Assets –		
Fair value of plan assets as of beginning of year	$ 56,675,000	$ 48,588,000
Actual return on plan assets	5,706,000	7,176,000
Employer contributions	2,874,000	3,824,000
Benefits paid and expenses	(3,614,000)	(2,913,000)
Fair value of plan assets as of end of year	$ 61,641,000	$ 56,675,000
Funded Status as of End of Year	$(15,534,000)	$(17,984,000)

Components of pension expense for the three years were:

	2010	2009	2008
Service cost	$ 1,510,000	$ 1,600,000	$ 1,963,000
Interest cost	4,749,000	4,860,000	4,550,000
Expected return on plan assets	(4,747,000)	(4,128,000)	(5,033,000)
Amortization of prior service cost	147,000	106,000	83,000
Recognized net actuarial loss	1,238,000	1,737,000	598,000
Curtailment charge	219,000	–	–
Net periodic pension expense	$ 3,116,000	$ 4,175,000	$ 2,161,000

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

	2010	2009
Projected benefit obligations	$ 77,175,000	$ 74,659,000
Accumulated benefit obligations	$ 77,175,000	$ 70,988,000
Fair value of plan assets	$ 61,641,000	$ 56,675,000

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

	2010	2009
Discount rate	6.08%	6.50%
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:

	2010	2009	2008
Discount rate	6.51%	6.80%	6.42%
Expected long-term return on plan assets	8.38%	8.37%	8.50%
Rate of compensation increase	2.00%	2.00%	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 decreased from 6.80% for 2009 to 6.51% for 2010. The effect of the rate decrease was to increase pension expense by $238,739 for 2010. 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 8.38% for 2010 and 8.37% for 2009.

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:

	2010	2009
Asset Category:		
Fixed income	51%	48%
Equities	46%	50%
Other	3%	2%
	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 are 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, 2010:

Asset Category	Market Value at 12-31-10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & Cash Equivalents	$ 1,946,000	$ 1,331,000	$ 615,000 (c)	$ –
Equity Securities:				
Value	29,661,000	12,673,000 (a)	16,988,000 (d)	–
Growth	16,479,000	15,649,000 (b)	830,000 (e)	–
Fixed Income Securities	13,022,000	–	13,022,000 (f)	–
General Investment	533,000	–	–	533,000 (g)
Total Plan Assets	$ 61,641,000	$ 29,653,000	$ 31,455,000	$ 533,000

(a) 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.

(b) 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.

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

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

(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) 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.

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

There was no change in fair value for the assets of the General Account, valued using significant unobservable inputs (Level 3) for 2010. The balance was $533,000 as of December 31, 2010.

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

Year	Amount
2011	$ 3,743,000
2012	3,953,000
2013	3,994,000
2014	4,212,000
2015	4,403,000
2016 through 2020	25,640,000
	$ 45,945,000

Included in accumulated other comprehensive loss as of December 31, 2010, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized prior service costs of $561,900 ($345,500, net of tax) and unrecognized actuarial losses of $20,591,000 ($12,663,400, net of tax). 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, 2011, are $66,000 and $848,200, respectively.

(5) Income Taxes:

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

	2010	2009	2008
Current tax expense	$ 1,011,200	$ (1,371,200)	$ 721,200
Deferred, net	(3,813,100)	(163,900)	1,315,500
Valuation allowance – change	5,972,200	(131,200)	72,600
	$ 3,170,300	$ (1,666,300)	$ 2,109,300

A non-cash charge of $5,972,200 was recorded during the fourth quarter of 2010 to establish a valuation allowance for a portion of the domestic net deferred tax assets. The Company incurred a domestic cumulative loss before income taxes of $10,238,000 for the three-year period ended December 31, 2010. Management believes the Company will generate sufficient taxable income in the future to utilize the net deferred tax assets. However, in accordance with the FASB Accounting Standard Codification 740 – "Accounting for Income Taxes," a valuation allowance is required for net deferred tax assets in such circumstances, unless the ultimate realization of the net deferred tax assets is more likely than not.

In establishing the valuation allowance, management considered all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and recent financial results. Net deferred tax assets are recorded to the extent that management believes these assets will more likely than not be realized. A valuation allowance was established against deferred tax assets that did not meet the criteria. In the event management determines that it will be able to realize deferred tax assets in the future in excess of the recorded amount, they will make an adjustment to the valuation allowance.

The Company considered various tax planning strategies in determining the appropriate amount of the valuation allowance, including the potential sale of certain appreciated assets and the effect of terminating the tax LIFO election. Implementing the tax planning items associated with the sale of certain assets would not have a significant impact on operations. The LIFO planning strategy can be enacted by filing an automatic accounting method change request with the IRS to terminate the Company's tax LIFO election.

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, 2010 and 2009, is shown below:

	2010	2009
Deferred Tax Assets:		
Workers compensation	$ 206,900	$ 283,200
Vacation	513,100	727,700
Warranty	96,200	164,300
Doubtful accounts	41,000	55,700
Pensions	5,298,700	6,601,700
Healthcare benefits	–	143,000
Inventory	356,300	203,300
Tax attribute carryforward	5,213,600	1,487,400
Other	827,800	678,700
	$ 12,553,600	$ 10,345,000
Deferred Tax Liabilities:		
Amortization of intangibles	(1,226,400)	(966,000)
Depreciation	(3,301,700)	(3,523,400)
Net	$ 8,025,500	$ 5,855,600
Valuation allowance	(5,972,200)	–
Net Deferred Tax Assets	$ 2,053,300	$ 5,855,600

As of December 31, 2010, net current deferred tax assets were $338,000; net noncurrent deferred tax assets were $4,086,700; and net noncurrent deferred tax liabilities were $2,371,400, the total of which includes a valuation allowance of $5,972,200. 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 current deferred tax liabilities were $2,244,200. 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, 2010 and 2009, were $186,700 and $2,569,900, 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, 2010, the tax effected deferred tax assets included $1,022,500 related to state net operating losses and $3,349,300 related to federal net operating losses, which expire between the years 2014 and 2030. General business tax credits at December 31, 2010, of $736,800 are included in deferred tax assets and expire between the years 2026 and 2030.

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, 2010, follows:

	2010	2009	2008
Statutory federal income tax expense	$ (1,897,700)	$ (521,400)	$ 1,940,800
Increase (decrease) in taxes resulting from:			
Tax credits	36,100	(227,000)	(267,900)
State tax, net of federal benefit	(581,400)	(185,300)	102,900
Net unrecognized tax positions	50,700	(287,300)	381,700
International taxes	(389,400)	(370,900)	(145,800)
Permanent differences	60,100	111,300	130,200
Other, net	(80,300)	(54,500)	(105,200)
Valuation allowance change	5,972,200	(131,200)	72,600
	$ 3,170,300	$ (1,666,300)	$ 2,109,300

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2010 and 2009, are included in other long-term liabilities on the accompanying Consolidated Balance Sheets:

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
Additions based on tax positions related to the current year	33,500
Additions for tax positions of prior years	44,200
Reductions for tax positions of prior years	(358,000)
Settlements or lapse of applicable statutes	–
Balance as of December 31, 2010	$ 754,900

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 is currently examining tax years 2007 to 2009. State statutes vary, but state income tax returns are generally subject to examination from 2005 forward. The unrecognized benefits of $754,900 as of December 31, 2010, 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 $44,200 for the year ended December 31, 2010, was not significant for the year ended December 31, 2009, and was $93,900 for the year ended December 31, 2008.

(6) Borrowings:

The Company's domestic bank borrowing facility of $17,000,000 expired on March 15, 2011. Borrowings under the facility incurred interest at the 30-day LIBOR daily floating rate plus a rate ranging from 2.25% to 3.50%, depending on the ratio of funded debt to EBITDA, as defined, and were secured by accounts receivable and inventory. The Company was subject to a basic fixed charge coverage ratio for the third and fourth quarters of 2010 of 1.30:1 and 1.50:1, respectively, and a ratio of 1.10:1 for the year 2010. As of December 31, 2010, the balance outstanding was $8,752,000; and as of December 31, 2009, there were no borrowings under the facility. The Company was not in compliance with the borrowing covenants as of September 30 and December 31, 2010. See Note 12, "Subsequent Events" for an update.

Mueller B.V.'s operating companies have bank borrowing facilities which total $9,829,000. Borrowings under the facilities are at variable rates of one-month Euribor plus 1.22% to 1.72%. 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, 2010. Total borrowing under the facilities was $6,509,000 as of December 31, 2010.

As of December 31, 2010, the Companies had notes payable with an outstanding balance of $25,254,200. 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 $21,356,700 as of December 31, 2010; 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	$ 1,643,400	$ 821,700
Note Payable – Seller financing of Paltrok acquisition. Interest rate was 0%. Payments made annually from, as defined, cash flows	2,433,500	1,157,400
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	5,632,500	662,700
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	8,470,700	2,731,100
Paltrok – Note Payable secured by equipment and certain assets. Note matures in 2017 with a variable rate of Euribor plus 0.7%. The rate at year-end was 1.18%. Payments are made quarterly	592,300	36,500
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	2,584,300	132,500
Notes Payable related to Mueller B.V. and subsidiaries	$ 21,356,700	$ 5,541,900
Bank – Note Payable secured by plant equipment. Note matures in 2013 with a fixed rate of 4.5%. Payments are made annually	$ 2,819,300	$ 900,000
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	1,078,200	635,400
Domestic Notes Payable	$ 3,897,500	$ 1,535,400
Total Notes Payable	$ 25,254,200	$ 7,077,300

Provisions of the Mueller B.V. note payable ($1,643,400) require bank approval to pay dividends. The MEKO note payable ($8,470,700) has a tangible net worth requirement and a limitation on the annual repayment amount of the Seller's loan in the amount of $5,632,525. The Paltrok notes payable ($3,176,600) have a tangible net worth requirement. The domestic bank notes payable ($3,897,500) have a minimum tangible net worth requirement. The Companies were in compliance with the covenants as of December 31, 2010.

The principal payments of the notes payable as of December 31, 2010, and for future years are listed below:

2011	$ 7,077,300
2012	7,043,900
2013	4,818,800
2014	831,600
2015	831,600
Thereafter	4,651,000
	$ 25,254,200

At December 31, 2010 and 2009, the fair market value of the Seller-financed note at no interest was $230,008 and $329,900, 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 $800,000. As of December 31, 2010, there were standby letters of credit totaling $36,260 and $800,000, respectively, issued under these facilities, which will expire within one year.

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, 2010 and 2009:

	2010	2009
Beginning balance	$ 1,609,501	$ 1,861,016
Costs incurred to satisfy warranty claims	(898,488)	(1,252,072)
Aggregate warranty reserves made	939,865	1,045,067
Aggregate changes to warranty reserves	(389,179)	(44,510)
Ending balance	$ 1,261,699	$ 1,609,501

(8) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $2,435,042 and terms exceeding one year. The lease expense for the years ended December 31, 2010, 2009, and 2008, was $1,223,163, $842,900, and $179,200, respectively. The future minimum lease payments for each of the years subsequent to December 31, 2010, will be:

2011	$ 1,050,977
2012	769,188
2013	380,625
2014	158,693
2015	56,106
Thereafter	19,453
	$ 2,435,042

(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; biopharmaceutical equipment; pure water equipment; and thermal energy storage 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 for the segments. 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).

	2010						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$84,877,943	$ 35,992,868	$10,616,975	$ 2,921,870	$ –	$ (4,776,718)	$129,632,938
Depreciation & amortization expense	$ 4,942,821	$ 1,567,762	$ 166,968	$ 277,917	$ 1,415,482	$ –	$ 8,370,950
Income (loss) before income tax	$ 5,363,433	$(10,662,762)	$ 311,741	$ (524,770)	$ (14,494)	$ (50,668)	$ (5,577,520)
Assets	$61,414,211	$ 19,864,479	$ 1,298,166	$ 1,976,388	$17,724,852	$ –	$102,278,096
Additions to property, plant & equipment	$ 931,850	$ (12,879)	$ 13,115	$ –	$ 94,974	$ –	$ 1,027,060

	2009						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$87,371,584	$ 62,899,483	$20,383,357	$ 3,616,388	$ –	$ (6,752,135)	$167,518,677
Depreciation & amortization expense	$ 4,965,926	$ 2,106,900	$ 333,563	$ 375,089	$ 849,698	$ –	$ 8,631,176
Income (loss) before income tax	$ 4,245,450	$ (8,583,548)	$ 2,046,969	$ (191,437)	$ 834,203	$ 114,888	$ (1,533,475)
Assets	$67,717,847	$ 21,407,856	$ 2,900,560	$ 2,231,157	$21,203,336	$ –	$115,460,756
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	$83,761,963	$116,550,112	$14,446,439	$ 6,403,871	$ –	$ (3,280,630)	$217,881,755
Depreciation & amortization expense	$ 3,457,064	$ 2,404,124	$ 444,122	$ 433,649	$ 855,180	$ –	$ 7,594,139
Income (loss) before income tax	$ 5,195,822	$ (3,913,773)	$ 3,035,690	$ 402,916	$ 987,644	$ –	$ 5,708,299
Assets	$82,822,710	$ 42,709,339	$ 2,721,074	$ 2,634,196	$21,683,939	$ –	$152,571,258
Additions to property, plant & equipment	$ 789,648	$ 1,519,335	$ 68,393	$ 50,164	$ 1,335,350	$ –	$ 3,762,890

Revenues from external customers by product category for the three years ended December 31, 2010, were:

	2010	2009	2008
Milk-cooling and storage equipment	$ 84,355,238	$ 85,230,506	$ 83,063,365
Process vessels and tanks	33,140,491	50,087,545	68,308,075
Other industrial equipment	12,137,209	32,200,626	66,510,315
	$ 129,632,938	$ 167,518,677	$ 217,881,755

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, 2010, were:

	2010	2009	2008
United States	$ 55,434,552	$ 87,251,581	$ 139,915,595
North America (excluding the U.S.)	8,667,111	7,537,746	14,515,037
Asia and the Far East	5,740,228	9,529,444	23,883,632
The Netherlands	38,591,192	42,162,158	23,231,699
Other EU countries	17,751,713	17,721,643	12,449,780
Europe (non-EU countries)	878,432	1,343,537	252,948
Other areas	2,569,710	1,972,568	3,633,064
	$ 129,632,938	$ 167,518,677	$ 217,881,755

During 2010, 2009, and 2008, export sales to any one country were not in excess of 10% of consolidated sales.

During 2010, 2009, and 2008, sales to any one customer were not in excess of 10% of consolidated sales.

Long-lived assets owned by the Company and its subsidiaries as of December 31, 2010, of $22,416,600 and $33,767,100 were located in the United States and The Netherlands, respectively. 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.

(10) Long-Term Incentive Plans:

The Company has two stock-based compensation plans: the 2010 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, 2010.

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 $893,708, $413,340, and $367,875, for the years ended December 31, 2010, 2009, and 2008, respectively. As of December 31, 2010, 91,733 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, 2010, was $1,065,992. 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, 2010, were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2009	69,989	$ 40.74
Granted during the period	22,969	$ 26.00
Forfeited during the period	(1,225)	$ 38.37
Nonvested as of December 31, 2010	91,733	$ 39.31

(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, 2010:

	Fair Value Measurements			Assets at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments	$ –	$ 409,600	$ –	$ 409,600
Total	$ –	$ 409,600	$ –	$ 409,600

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, 2010, remain in accumulated other comprehensive income (loss) as of the de-designation date and will be reclassified to interest expense. As of December 31, 2010, the estimated fair value of the interest rate swaps was a net liability of $409,600 and was included in other long-term liabilities on the Consolidated Balance Sheets.

(12) 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 June 29, 2011. The following subsequent events occurred.

An amended and restated rights agreement was adapted by the Board of Directors of the Company on January 26, 2001, and was in effect for ten (10) years. The agreement has expired and the rights issued under the agreement expired on January 29, 2011.

The former President and CEO resigned on April 19, 2011, and under an employment agreement he is entitled to certain payments. A severance payment of $715,000 was paid in May 2011, and under a noncompete provision, payments of $92,400 are due in twenty-four (24) monthly installments, commencing June 1, 2011. The Company also redeemed, for an aggregate purchase price of $388,290, a total of 18,490 shares of common stock during May 2011. Additionally, under a supplemental retirement plan, the Company will purchase an annuity in 2014 and that benefit, combined with the pension benefit he will receive from the Company's pension plan for noncontract personnel, will provide, at age fifty-five, an annual pension equal to eighty percent of his final base salary.

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. On June 21, 2011, an agreement-in-principle concerning a settlement was reached and the Company has recorded a provision of $954,000 in the accompanying Consolidated Financial Statements for a settlement.

On June 27, 2011, the Company obtained an amendment to its domestic bank borrowing facility which extended its maturity to January 20, 2012. The facility amount is $17,000,000, which includes $2,000,000 for letters of credit and is subject to certain borrowing base restrictions. Borrowings under the facility incur interest at the 30-day LIBOR daily floating rate, plus a rate ranging from 2.5% to 4.5%, depending on the ratio of funded debt to EBITDA, as defined, and are secured by accounts receivable, inventory, and a first mortgage of real estate. The Company is subject to a rolling three-month minimum fixed charge coverage ratio for domestic operations of at least 1.50:1, determined monthly, and a consolidated minimum fixed change coverage ratio of 0.85:1 for the second quarter and 1.25:1 thereafter, determined quarterly for consolidated operations. The Company is required to maintain minimum domestic liquidity equal to $2,500,000, and is subject to a consolidated tangible net worth covenant of $8,000,000, determined quarterly. Management believes it will be successful in negotiating new financing before maturity of the current credit facility.

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, 2010 and 2009, and the related consolidated statements of income (loss), shareholders' investment, and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2010. 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.

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 2010 and 2009 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, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company has elected to change its method of accounting for inventory from the single-pool, dollar value, last-in, first-out method to the inventory price index computation method of LIFO effective January 1, 2010.

Grant Thornton LLP

Kansas City, Missouri
June 29, 2011

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2010 and 2009

Selected Financial Data – Five-Year Summary

	2010	2009	2008	2007	2006
		As restated	As restated	As restated	As restated
Net sales	$ 129,632,938	$ 167,518,677	$ 217,881,755	$ 241,147,181	$ 152,887,170
Net income (loss)	$ (8,937,900)	$ (186,976)	$ 3,726,666	$ 8,428,489	$ 8,502,090
Earnings (loss) per common share:					
Basic	$ (7.50)	$ (0.16)	$ 3.20	$ 7.31	$ 7.39
Diluted	$ (7.50)	$ (0.16)	$ 3.15	$ 7.18	$ 7.31
Common shares outstanding	1,291,074	1,266,229	1,245,630	1,198,562	1,185,123
Dividends declared per common share	$ 0.00	$ 0.60	$ 2.40	$ 2.40	$ 2.40
Total assets	$ 102,278,096	$ 115,460,756	$ 152,571,258	$ 102,954,234	$ 94,296,311
Long-term debt	$ 18,176,949	$ 26,991,997	$ 33,763,216	$ 2,080,674	$ 833,967
Shareholders' investment	$ 17,823,465	$ 24,759,037	$ 20,548,515	$ 28,219,318	$ 22,049,423
Working capital	$ (5,049,987)	$ 2,480,027	$ 5,832,785	$ 13,389,865	$ 12,158,348
Book value per common share	$13.81	$19.55	$16.50	$23.54	$18.61
Average number of employees	729	971	1,398	1,305	948

Market and Dividend Information by Quarter

	2010				2009			
	Quarter Ended				Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Market Price of Stock –								
High	$27.00	$30.00	$20.00	$24.00	$34.00	$27.49	$27.49	$23.00
Low	$19.25	$18.50	$16.50	$14.56	$17.25	$15.90	$16.25	$18.75
Cash Dividends –								
Declared per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.60	$ 0.00	$ 0.00	$ 0.00

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 2010 and 2009.

Financial Highlights by Quarter (Unaudited)
For the Years 2010 and 2009

(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2010	2009[(a)(b)] As restated	2010	2009[(a)(b)] As restated	2010	2009[(a)(b)] As restated	2010	2009[(a)(b)] As restated
Net sales	$ 25,178	$ 44,553	$ 32,615	$ 41,561	$ 36,962	$ 41,049	$ 34,878	$ 40,356
Gross profit	$ 5,912	$ 9,587	$ 10,827	$ 13,526	$ 8,189	$ 10,205	$ 10,759	$ 9,979
Net (loss) income	$ (2,921)	$ (990)	$ 767	$ 1,212	$ (1,007)	$ (770)	$ (5,777)	$ 361
Earnings (loss) per common share:								
Basic	$(2.45)	$(0.83)	$ 0.64	$ 1.02	$(0.84)	$(0.65)	$(4.85)	$ 0.30
Diluted	$(2.45)	$(0.83)	$ 0.63	$ 1.02	$(0.84)	$(0.65)	$(4.85)	$ 0.30

(a) Effective January 1, 2010, the Company changed the method of valuing its inventory from the single-pool, dollar value, LIFO method to the inventory price index computation ("IPEC") LIFO method. As a result, 2009 results have been restated to be comparable to 2010 results. The effect of the change was to increase the loss for the first quarter of 2009 by $172,000, to reduce the net income for the second quarter by $138,000, to increase the loss of the third quarter by $152,000, and to reduce the net income for the fourth quarter by $149,000.

(b) A non-cash charge of $5,972,200 was recorded during the fourth quarter of 2010 to establish a valuation allowance for a portion of the domestic net deferred tax assets as of December 31, 2010. The Company incurred a domestic cumulative loss before income before tax of $10,238,000 for the three-year period ended December 31, 2010, which was attributable to the extremely challenging economic conditions. Management believes the Company will generate sufficient taxable income in the future to utilize the net deferred tax assets. However, in accordance with the FASB Accounting Standard Codification 740 – "Accounting for Income Taxes," a valuation allowance is required for net deferred tax assets in such circumstances, unless the ultimate realization of the net deferred tax assets is more likely than not.

PAUL MUELLER COMPANY

DIRECTORS

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

* **DONALD E. GOLIK**
Executive Vice President

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**
Chairman of the Board
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

ROBERT A. NOSAL
President and CEO

DONALD E. GOLIK
Executive Vice President

MARCELINO RODRIGUEZ
Chief Financial Officer

DAVID T. MOORE
Vice President and Secretary

WHOLLY OWNED SUBSIDIARIES

MUELLER TRANSPORTATION, INC.

OFFICERS

AARON L. OWEN – President
MARCELINO RODRIGUEZ – Vice President
MICHAEL R. PAYNE – Controller
CATHY CLENDENING – Secretary

MUELLER FIELD OPERATIONS, INC.

OFFICERS

AARON L. OWEN – President
MARCELINO RODRIGUEZ – Vice President
MICHAEL R. PAYNE – Controller
CATHY CLENDENING – Secretary

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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