2011 ANNUAL REPORT
Paul Mueller Company

PAUL MUELLER COMPANY is headquartered in Springfield, Missouri, and 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.

FINANCIAL HIGHLIGHTS

Operating Results for the Year	2011	2010
Net Sales	$ 154,181,000	$ 129,633,000
Income (Loss) Before Taxes	$ 2,074,000	$ (5,768,000)
Provision (Benefit) for Income Taxes	57,000	3,170,000
Net Income (Loss)	$ 2,017,000	$ (8,938,000)
Earnings per Common Share:		
Basic	$ 1.68	$ (7.50)
Diluted	$ 1.64	$ (7.50)

Year-End Position

	2011	2010
Total Assets	$ 103,874,000	$ 102,278,000
Working Capital	$ (968,000)	$ (5,050,000)
Current Ratio	.98 : 1	.89 : 1
Net Worth	$ 8,239,000	$ 17,823,000
Book Value per Share	$ 6.58	$ 13.81
Common Shares Outstanding	1,252,977	1,291,074
Backlog (Unaudited)	$ 51,714,000	$ 31,044,000

Fellow Shareholders:

Our Company returned to growth and profitability in 2011, earning $2,017,000 and increasing revenues more than 18%, while growing the backlog by more than 65%. These results are a strong improvement over the prior two years. However, they were tempered by both the non-repeating costs of significant changes and the effects of some operational issues, which we are addressing. Despite disappointment with our financial performance, I am proud of our coworkers' efforts to meet our commitments to our customers and to prepare us for stronger financial performance in the future. Here are the highlights of these efforts.

In the third full year after the acquisition of our Dutch operations, we again produced strong results in The Netherlands, earning $3,024,000 on revenue of $59,104,000. We are optimistic for 2012 as Mueller B.V. began the year with a backlog that was 35% higher than a year earlier. The increase in backlog occurred in both of the main product areas with a 21% increase in the dairy farm backlog and a 77% increase in the backlog of the heat transfer and processing tank product lines. Our manager in The Netherlands, Wytze Tjepkema, leads an innovative group, which continues to make product developments such as new milk cooler controls, new dairy silo designs, and new cellar beer tank designs. They also continue to develop our marketing efforts, adjusting our model in The Netherlands and challenging us to consider opportunities for further geographical expansion.

Domestically, our Dairy Farm Equipment business, managed by Roger Hailey, is also accelerating. After very little revenue growth in 2011, the 2012 starting backlog is up 79%. In addition to responding to stronger market conditions, this group is in the process of launching a new electronically controlled refrigeration system for milk coolers and chillers. This update of our HiPerForm® system offers additional energy savings and increased cooling capacity.

Our domestic Heat Transfer Products group, also managed by Roger Hailey, begins 2012 with a slightly lower backlog, but this is after a year in which its revenue grew by 40%. Our Heat Transfer Products staff has improved its effectiveness in selling replacement parts and is now focusing on simplifying the design and assembly of our heat exchangers.

The Industrial Equipment business has experienced more change over the past three years than any other area of our business. During 2009 and 2010, we responded to the economic climate with large reductions in employment and significant changes to our manufacturing processes. Simultaneously, we adopted a new ERP system. Finally, in 2011 the revenue in Industrial Equipment began to grow, reducing some of the pressures on this group, but we have yet to achieve the efficiencies and margins that we expect. In the second half of 2011, we focused on making changes in processes and in personnel to address this issue. Still, work remains to be done. Through all of this change, the Industrial Equipment group, managed by Aaron Owen, has remained focused on meeting our commitments to our customers and on making improvements to our products. They have recently introduced new designs for our standard silos and our manways. One particularly bright spot involves our sale of components to other manufacturers. This business grew more than 160% percent in 2011 and shows no sign of slowing down.

Mueller Field Operations ("MFO"), also managed by Aaron Owen, is staged for a strong year. MFO has secured significant projects in the pulp and paper industry and in the juice industry. This group increased its backlog to over $6 million at the end of 2011, and in the first quarter of 2012, MFO achieved additional order entry of more than $12 million.

Financially, the turnaround in earnings was also reflected in the cash flows of the Company. At the beginning of 2011, excluding the accounts of Mueller B.V., the Company had approximately $755,000 in cash and had borrowed $8.8 million on a short-term line of credit. At the end of the year, the Company had $5.2 million in cash and had reduced the short-term borrowings to $3.9 million on a new borrowing facility. This new facility is in place through September of 2014.

The past year also brought significant leadership changes to Paul Mueller Company. Marcelino Rodriguez joined us in early 2011 for the difficult job of taking over as CFO for Don Golik, who held the position for more than 31 years. Mr. Rodriguez has demonstrated that he is up to this task. We are also joined by a number of additions to the board of directors: a strong local business person, John Ghirardelli; a longtime shareholder, Jeanie Morris; and the nomination of a well-respected lawyer who brings skills related to corporate governance, Lee Viorel. After nearly 10 years working for the Company, in the United States and in Europe, and having served on the board since 1997, I became president and CEO in August. I am fortunate to begin this role with the support of such a talented group of leaders.

As we begin 2012, the markets in which we operate are stronger than they have been for years. We have experienced a turnaround during 2011 and have identified the challenges that remain. We have the financial strength and talented people required to make further progress. When my coworkers interact with customers and vendors, I am impressed by their professionalism and their pride in the Company. I am thankful to be associated with them and hope that you are as proud of them as I am.

David Moore
President and CEO

April 6, 2012

CORPORATE PROFILE

Paul Mueller Company is headquartered in Springfield, Missouri, and 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 engaged in dairy farm, industrial, and heat transfer equipment.

Consolidated Statements of Income (Loss) for the Years Ended December 31, 2011, 2010, and 2009

	2011	2010	2009
Net Sales	$ 154,181,120	$ 129,632,938	$ 167,518,677
Cost of Sales	106,897,159	93,946,367	124,221,543
Gross profit	$ 47,283,961	$ 35,686,571	$ 43,297,134
Selling, General, and Administrative Expenses	43,924,865	39,337,387	42,383,192
Operating income (loss)	$ 3,359,096	$ (3,650,816)	$ 913,942
Other Income (Expense):			
Interest income	$ 54,209	$ 42,776	$ 71,837
Interest expense	(1,881,111)	(1,862,020)	(2,160,995)
Other, net	570,226	(107,460)	(358,259)
Total Other Income (Expense)	$ 1,256,676	$ (1,926,704)	$ (2,447,417)
Income (loss) before provision (benefit) for income taxes and equity in income (loss) of joint ventures	$ 2,102,420	$ (5,577,520)	$ (1,533,475)
Provision (Benefit) for Income Taxes	$ 57,065	$ 3,170,330	$ (1,666,326)
Income (Loss) before Equity in (Loss) of Joint Ventures	$ 2,045,355	$ (8,747,850)	$ 132,851
Equity in (Loss) of Joint Ventures	(28,600)	(190,050)	(319,827)
Net Income (Loss)	$ 2,016,755	$ (8,937,900)	$ (186,976)
Earnings (Loss) per Common Share:			
Basic	$ 1.68	$ (7.50)	$ (0.16)
Diluted	$ 1.64	$ (7.50)	$ (0.16)

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

Consolidated Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,398,147	$ 1,133,891
Accounts receivable, less reserve for doubtful accounts of $231,801 for 2011 and $1,441,822 for 2010	20,354,439	19,397,291
Costs and estimated earnings in excess of billings	182,384	618,673
Inventories: Raw materials and components	$ 8,998,121	$ 6,655,915
Work-in-process	6,364,206	2,209,289
Finished goods	7,540,191	9,312,980
	$ 22,902,518	$ 18,178,184
Prepayments	2,413,046	1,669,265
Total Current Assets	$ 51,250,534	$ 40,997,304
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 7,364,583	$ 7,861,531
Buildings	16,702,703	19,378,793
Fabrication equipment	76,404,508	76,753,785
Transportation, office, and other equipment	16,568,337	19,006,078
Construction-in-progress	161,575	465,924
	$ 117,201,706	$ 123,466,111
Less: Accumulated depreciation	80,950,755	78,636,697
	$ 36,250,951	$ 44,829,414
Goodwill	8,187,108	8,354,702
Deferred Tax Assets	4,225,416	4,086,686
Other Assets	3,959,510	4,009,990
	$ 103,873,519	$ 102,278,096
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 8,741,102	$ 15,261,243
Current maturities of long-term debt	6,193,743	7,077,274
Accounts payable	8,658,332	6,794,785
Accrued expenses: Income taxes	–	110,331
Payroll and benefits	5,816,720	4,173,345
Vacations	1,150,659	1,213,409
Other	2,569,831	3,116,367
Advance billings	16,104,235	8,092,077
Billings in excess of costs and estimated earnings	2,984,187	208,460
Total Current Liabilities	$ 52,218,809	$ 46,047,291
Long-Term Pension Liabilities	26,488,246	15,501,260
Long-Term Debt, Less Current Maturities	13,066,161	18,176,949
Other Long-Term Liabilities	3,861,857	4,729,131
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,507,481 shares for 2011 and 2010	$ 1,507,481	$ 1,507,481
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	9,350,768	8,818,414
Retained earnings	27,523,935	25,507,180
	$ 38,382,184	$ 35,833,075
Less: Treasury stock – 254,504 shares for 2011 and 216,407 shares for 2010, at cost	(4,751,622)	(4,019,267)
Common stock held by Rabbi Trust – 7,236 shares for 2011 and 7,236 shares for 2010	(188,136)	(188,136)
Accumulated other comprehensive loss	(25,203,980)	(13,802,207)
	$ 8,238,446	$ 17,823,465
	$ 103,873,519	$ 102,278,096

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, 2011, 2010, and 2009

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
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 (loss)	–	–	(186,976)	–	–	$ (186,976)
Other comprehensive income (loss), 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 (loss)	–	–	(8,937,900)	–	–	$ (8,937,900)
Other comprehensive income (loss), 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
Add (Deduct):						
Net income	–	–	2,016,755	–	–	$ 2,016,755
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustment	–	–	–	–	(552,047)	(552,047)
Change in pension liability	–	–	–	–	(10,918,368)	(10,918,368)
Amortization on de-designated hedges	–	–	–	–	68,642	68,642
Comprehensive loss	–	–	–	–	–	$ (9,385,018)
Restricted stock forfeitures	–	135,782	–	(135,782)	–	–
Treasury stock acquisition	–	–	–	(596,573)	–	(596,573)
Deferred compensation amortization	–	396,572	–	–	–	396,572
Balance – 12-31-2011	$ 1,507,481	$ 9,350,768	$ 27,523,935	$ (4,939,758)	$(25,203,980)	$ 8,238,446

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

Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010, and 2009

	2011	2010	2009
Cash Flows from Operating Activities:			
Net income (loss)	$ 2,016,755	$ (8,937,900)	$ (186,976)
Adjustments to reconcile net income (loss) to net cash (required) provided by operating activities:			
Equity in loss of joint ventures	28,600	190,050	319,827
Pension liability	68,618	721,175	–
Bad debt expense	1,937	607,783	589,233
Depreciation and amortization	7,409,046	8,370,950	8,631,176
(Gain) loss on sales of equipment	(667,842)	(875,655)	714
Deferred tax (benefit) expense	(135,481)	(3,813,100)	(163,936)
Deferred tax valuation allowance – change	(124,149)	5,972,199	(131,249)
Other	14,222	–	–
Changes in assets and liabilities, net of effect of acquisitions –			
(Increase) decrease in accounts and notes receivable	(1,084,220)	(600,719)	15,427,643
(Increase) decrease in costs in excess of estimated earnings and billings	436,288	(133,270)	(477,655)
(Increase) decrease in inventories	(4,938,576)	(2,020,695)	12,630,602
(Increase) decrease in prepayments	(675,965)	(120,341)	1,414,214
(Increase) decrease in other assets	(614,472)	24,587	(1,399,211)
Increase (decrease) in accounts payable	1,197,115	185,238	(2,352,114)
Increase (decrease) in accrued expenses	1,651,829	(1,653,943)	(9,138,354)
Increase (decrease) in advance billings	8,170,138	538,746	(5,140,409)
Increase (decrease) in billings in excess of costs and estimated earnings	2,775,727	(158,108)	(3,366,560)
Increase (decrease) in other long-term liabilities	(550,053)	(94,266)	30,308
Net Cash (Required) Provided by Operating Activities	$ 14,979,517	$ (1,608,737)	$ 16,687,253
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sale of investments in joint ventures	$ –	–	217,121
Proceeds from sales of equipment	4,210,682	2,516	967
Additions to property, plant, and equipment	(1,754,937)	(1,027,060)	(3,420,676)
Net Cash (Required) Provided by Investing Activities	$ 2,455,745	$ (1,024,544)	$ (3,202,588)
Cash Flow Provisions (Requirements) from Financing Activities:			
Proceeds from short-term borrowings	$ –	$ 8,752,000	$ –
Repayment of short-term borrowings	(6,467,255)	(696,057)	(7,493,780)
Long-term debt proceeds	1,311,316	–	–
Repayment of long-term debt	(7,374,410)	(7,170,221)	(6,802,504)
Dividends paid	–	–	(747,375)
Treasury stock acquisitions	(596,573)	–	–
Other	67,305	–	–
Net Cash (Required) Provided by Financing Activities	$ (13,059,617)	$ 885,722	$ (15,043,659)
Effect of Exchange Rate Changes	(111,389)	113,356	(150,478)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 4,264,256	$ (1,634,203)	$ (1,709,472)
Cash and Cash Equivalents at Beginning of Year	1,133,891	2,768,094	4,477,566
Cash and Cash Equivalents at End of Year	$ 5,398,147	$ 1,133,891	$ 2,768,094

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

Notes to Consolidated Financial Statements
December 31, 2011, 2010, and 2009

(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 (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 (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, 2011 and 2010, were as follows:

	2011	2010
Costs incurred on uncompleted contracts	$ 3,911,254	$ 2,439,207
Estimated earnings	962,182	432,723
	$ 4,873,436	$ 2,871,930
Less: Billings to date	7,675,239	2,461,717
	$ (2,801,803)	$ 410,213

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2011 and 2010, under the following captions were:

	2011	2010
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 182,384	$ 618,673
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,984,187)	(208,460)
	$ (2,801,803)	$ 410,213

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

Contracts with some customers provide for a portion of the sales amount to be retained by the customer for a period of time after completion of the contract. Retainages included in accounts receivable were $15,000 as of December 31, 2011. There were no retainages included in accounts receivable as of December 31, 2010.

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, 2011, revenue of $415,883 attributable to two customers was recorded prior to delivery as bill-and-hold transactions. 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. As of December 31, 2011 and 2010, accounts receivable related to bill-and-hold transactions of $42,597 and $206,000, 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. Trade accounts receivable are considered past due ten days from the due date. 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.

Under the first-in, first-out ("FIFO") method of accounting, which approximates current cost, Company inventories would have been $10,899,900 and $9,836,700 higher than those reported at December 31, 2011 and 2010, respectively.

Inventories of Mueller B.V. were $9,763,988 and $11,120,872 as of December 31, 2011 and 2010, respectively, and are recorded at the lower of cost on a 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, 2011 and 2010.

Research and Development – Research and development costs are charged to expense as incurred and were $445,914 during 2011, $814,737 during 2010, and $762,302 during 2009.

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 $6,791,000, $6,749,000, and $7,277,000 for the years ended December 31, 2011, 2010, and 2009, respectively. 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, 2011 and 2010, there were no impairments.

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

	2011	2010	2009
Net income (loss)	$ 2,016,755	$ (8,937,900)	$ (186,976)
Shares for basic earnings per common share –			
Weighted-average shares outstanding	1,199,640	1,192,105	1,191,355
Dilutive effect of restricted stock	32,251	10,460	45,442
Shares for diluted earnings per common share –			
Adjusted weighted-average shares outstanding	1,231,891	1,202,565	1,236,797
Earnings (loss) per common share:			
Basic	$ 1.68	$ (7.50)	$ (0.16)
Diluted	$ 1.64	$ (7.50)	$ (0.16)

Comprehensive Income – The components of other comprehensive income (loss) for the years ended December 31, 2011, 2010, and 2009, were as follows:

	2011	2010	2009
Foreign currency translation adjustment	$ (552,047)	$ (628,417)	$ 493,438
Tax	–	–	–
Foreign currency translation adjustment, net of tax	$ (552,047)	$ (628,417)	$ 493,438
Change in pension liability	$ (10,918,368)	$ 2,692,380	$ 6,754,411
Tax	–	(1,036,566)	(2,600,449)
Change in pension liability, net of tax	$ (10,918,368)	$ 1,655,814	$ 4,153,962
Amortization on de-designated hedges	$ 68,642	$ 81,223	$ 109,440
Other comprehensive income (loss)	$ (11,401,773)	$ 1,108,620	$ 4,756,840

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, 2011, were as follows:

	2011	2010	2009
Interest payments	$ 1,791,481	$ 1,867,200	$ 2,240,700
Income tax payments	$ 1,371,863	$ 495,953	$ 3,002,226
Non-cash activities related to investing activities:			
Note receivable on sale of Springfield Brewing Company	$ 400,000	$ –	$ –
Change in equity related to swap position	$ 68,642	$ 81,223	$ 109,440
Note receivable on sale of joint venture	$ 414,772	$ 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, 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
Restricted stock forfeitures	–	7,610
Treasury stock acquisition	–	30,487
Balance – December 31, 2011	1,507,481	254,504

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, 2011, 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.

Income Taxes – The Company accounts for income taxes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 – "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, as measured by the enacted tax rates which will be in effect when these differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred income tax assets, the Company considers whether it is "more likely than not," according to the criteria of FASB ASC 740, that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. FASB ASC 740 requires that the Company recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Recent Accounting Pronouncements – In September 2011, the FASB issued authoritative guidance which expanded and enhanced the existing disclosures related to multi-employer pension and other post-retirement benefit plans. The amendments require additional quantitative and qualitative disclosures about an employer's involvement in multi-employer plans including, the significant multi-employer plans in which the Company participates, level of the Company's participation and contributions, financial health and an indication of funded status, and the nature of the employer contributions to the plan. This guidance is effective for annual periods of fiscal years ending after December 15, 2011. The adoption of this guidance will significantly expand the existing disclosures, but will not have an impact on the Company's financial position, results of operation, and cash flows.

In September 2011, the FASB issued guidance to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance will not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for

disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income that eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of this guidance will not impact the Company's financial position, results of operations or cash flows, and will only impact the presentation of other comprehensive income in the 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. For the year ending December 31, 2011, 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, 2011, 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 $8,187,100 and $8,354,702 as of December 31, 2011 and 2010, 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.

(3) Goodwill and Intangible Assets:

Intangible assets as of December 31, 2011 and 2010, consisted of the following and are included in other assets on the Consolidated Balance Sheets:

	Brand Names	Customer Relationships	Total
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
Amortization 2011	269,400	302,700	572,100
Foreign currency fluctuation	14,400	47,000	61,400
Balance as of December 31, 2011	$ 543,300	$ 1,732,800	$ 2,276,100

Average amortization periods for brand names and customer relationships are six and nine years, respectively. Aggregate amortization of intangible assets was $572,100, $594,300, and $1,080,400 for the years ended December 31, 2011, 2010, and 2009, respectively. Estimated aggregate amortization for the next five years and thereafter is as follows:

2012	$	491,900
2013		491,900
2014		442,500
2015		294,300
2016		294,300
Thereafter		261,200
	$	2,276,100

The changes in the carrying amount of goodwill for the years ended December 31, 2011, 2010, and 2009, were as follows:

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
Foreign currency fluctuation		(167,600)
Balance as of December 31, 2011	$	8,187,100

As of December 31, 2011, 2010, and 2009, 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 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 $546,000 for 2011, $279,000 for 2010, and $425,600 for 2009.

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. Also, after June 1, 2011, there will be no further accrual of benefits for participants under the pension plan for employees represented by the bargaining unit. The contract plan does not have any outstanding prior service cost and the total gain attributable to the plan freeze is not greater than the outstanding loss. Therefore, there is no pension cost (income) associated with the curtailment.

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 $1,247,000 for 2011, $1,199,000 for 2010, and $1,290,000 for 2009.

Total domestic pension expense under the plans was $2,879,000 for 2011, $3,116,000 for 2010, and $4,175,000 for 2009. Management's policy is to fund pension contributions that are currently deductible for tax purposes. Contributions of $2,601,000 will be made during 2012. 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:

	2011	2010
Change in Projected Benefit Obligation –		
Benefit obligation as of beginning of year	$ 77,175,000	$ 74,659,000
Service cost	188,000	1,510,000
Interest cost	4,671,000	4,749,000
Curtailments	1,950,000	(2,691,000)
Actuarial loss (gain)	8,634,000	2,562,000
Benefits paid and expenses	(3,462,000)	(3,614,000)
Benefit obligation as of end of year	$ 89,156,000	$ 77,175,000
Change in Plan Assets –		
Fair value of plan assets as of beginning of year	$ 61,641,000	$ 56,675,000
Actual return on plan assets	1,083,000	5,706,000
Employer contributions	3,373,000	2,874,000
Benefits paid and expenses	(3,462,000)	(3,614,000)
Fair value of plan assets as of end of year	$ 62,635,000	$ 61,641,000
Funded Status	$ (26,521,000)	$ (15,534,000)
Less amount included in accrued expenses	$ 33,000	$ 33,000
Funded status as of end of year	$ (26,488,000)	$ (15,501,000)

Components of pension expense for the three years were:

	2011	2010	2009
Service cost	$ 188,000	$ 1,510,000	$ 1,600,000
Interest cost	4,671,000	4,749,000	4,860,000
Expected return on plan assets	(5,156,000)	(4,747,000)	(4,128,000)
Amortization of prior service cost	22,000	147,000	106,000
Recognized net actuarial loss	664,000	1,238,000	1,737,000
Curtailment charge	2,490,000	219,000	–
Net periodic pension expense	$ 2,879,000	$ 3,116,000	$ 4,175,000

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

	2011	2010
Projected benefit obligations	$ 89,156,000	$ 77,175,000
Accumulated benefit obligations	$ 89,156,000	$ 77,175,000
Fair value of plan assets	$ 62,635,000	$ 61,641,000

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

	2011	2010
Discount rate	5.60%	6.08%
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:

	2011	2010	2009
Discount rate	6.10%	6.51%	6.80%
Expected long-term return on plan assets	8.38%	8.38%	8.37%
Rate of compensation increase	2.00%	2.00%	2.00%

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 6.51% for 2010 to 6.10% for 2011. The effect of the rate decrease was to increase pension expense by $65,200 for 2011. 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 2011 and 8.38% for 2010.

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 American depositary receipts ("ADRs") diversified by value, growth, and capitalization. An ADR is a negotiable security that represents the underlying securities of a non-United States company that trades in the U.S. financial markets. 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:

	2011	2010
Asset Category:		
Fixed income	51%	51%
Equities	45%	46%
Other	4%	3%
	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 – "Fair Value Measurements and Disclosures." The following table summarizes the fair value of the Company's plans' assets as of December 31, 2011:

Asset Category	Market Value at 12-31-11	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 1,052,000	$ –	$ 1,052,000[c]	$ –
Equity Securities:				
Value............................	12,391,000	12,391,000[a]	–	–
Growth..........................	18,367,000	16,974,000[b]	1,393,000[d]	–
Fixed Income Securities	30,266,000	–	30,266,000[e]	–
General Investment	559,000	–	–	559,000[f]
Total Plan Assets...........	$ 62,635,000	$ 29,365,000	$ 32,711,000	$ 559,000

(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) 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.

(e) 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.

(f) 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 $559,000 as of December 31, 2011.

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

Year	Amount
2012	$ 4,163,000
2013	4,194,000
2014	8,072,000
2015	4,558,000
2016	4,815,000
2017 through 2021	27,401,000
	$ 53,203,000

Included in accumulated other comprehensive loss as of December 31, 2011, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $32,600,000 ($20,069,000, net of tax). 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). The actuarial loss included in accumulated other comprehensive loss and expected to be recognized in net periodic pension expense during the year ended December 31, 2012, is $867,000.

(5) Income Taxes:

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

	2011	2010	2009
Current tax expense	$ 316,700	$ 1,011,200	$ (1,371,200)
Deferred, net	(135,500)	(3,813,100)	(163,900)
Valuation allowance – change	(124,100)	5,972,200	(131,200)
	$ 57,100	$ 3,170,300	$ (1,666,300)

The Company established a $5,972,200 valuation allowance for a portion of domestic net deferred tax assets in the last quarter of 2010 and increased the allowance by $4,296,000 in 2011. The majority of this increase is related to the pension liability which was recorded through Other Comprehensive Income. The valuation allowance was recorded due to the domestic cumulative losses incurred in the last three years. In accordance with FASB ASC 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 the event management determines that is 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.

Deferred tax assets and liabilities arise from the differences between financial reporting and tax reporting of assets and liabilities that most often result from differences in timing of income and expense recognition. The detail of the deferred tax assets and liabilities as of December 31, 2011 and 2010, is shown below:

	2011	2010
Deferred Tax Assets:		
Workers compensation	$ 191,700	$ 206,900
Vacation	457,500	513,100
Warranty	96,200	96,200
Doubtful accounts	62,300	41,000
Pensions	9,874,000	5,298,700
Inventory	366,400	356,300
Tax attribute carryforward	4,379,100	5,213,600
Other	1,003,800	827,800
	$ 16,431,000	$ 12,553,600
Deferred Tax Liabilities:		
Amortization of intangibles	(1,105,000)	(1,226,400)
Depreciation	(2,578,300)	(3,301,700)
Net	$ 12,747,700	$ 8,025,500
Valuation allowance	(10,268,200)	(5,972,200)
Net Deferred Tax Assets	$ 2,479,500	$ 2,053,300

As of December 31, 2011, net current deferred tax assets were $424,100; net noncurrent deferred tax assets were $4,225,400; and net noncurrent deferred tax liabilities were $2,170,000, the total of which includes a valuation allowance of $10,268,200. 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. On the accompanying Consolidated Balance Sheets, net current deferred tax assets are included in prepayments, net current deferred tax assets are reported as such, and net noncurrent deferred tax liabilities are included in other long-term liabilities. Income taxes receivable at December 31, 2011, and 2010, were $172,200 and $186,700, 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, 2011, the tax effected deferred tax assets included $871,200 related to state net operating losses and $3,134,600 related to federal net operating losses, which expire between the years 2014 and 2031. Tax credits and capital loss carryforwards as of December 31, 2011, of $373,300 are included in deferred tax assets and expire between the years 2026 and 2031.

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, 2011, follows:

	2011	Rates	2010	Rates	2009	Rates
Statutory federal income tax expense	$ 714,800	34%	$ (1,897,700)	34%	$ (521,400)	34%
Increase (decrease) in taxes resulting from:						
Tax credits	–	0%	36,100	(1%)	(227,000)	15%
State tax, net of federal benefit	86,300	4%	(581,400)	10%	(185,300)	12%
Net unrecognized tax positions	(436,400)	(20%)	50,700	(1%)	(287,300)	18%
International taxes	(365,700)	(17%)	(389,400)	7%	(370,900)	24%
Permanent differences	8,600	0%	60,100	(1%)	111,300	(7%)
Other, net	173,600	0%	(80,300)	2%	(54,500)	4%
Valuation allowance change	(124,100)	2%	5,972,200	(107%)	(131,200)	9%
	$ 57,100	3%	$ 3,170,300	(57%)	$ (1,666,300)	109%

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2011 and 2010, are included in other long-term liabilities on the accompanying Consolidated Balance Sheets:

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
Additions based on tax positions related to the current year	–
Additions for tax positions of prior years	87,600
Reductions for tax positions of prior years	–
Settlements or lapse of applicable statutes	(524,000)
Balance as of December 31, 2011	$ 318,500

The Company's federal tax returns for years 2007 to 2010 have been reviewed by the Internal Revenue Service. The final revenue agent review has been signed and is waiting for the Internal Revenue Service Joint Committee review with only minor adjustments to the original tax returns made by the examining agent. State statutes vary, but state income tax returns are generally subject to examination from 2006 forward. The unrecognized benefits of $318,500 as of December 31, 2011, 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 was not significant for the year ended December 31, 2011, $44,200 for the year ended December 31, 2010, and was not significant for the year ended December 31, 2009.

(6) Borrowings:

As of September 28, 2011, the Company entered into a new domestic bank borrowing facility of $20,000,000. The facility expires on September 28, 2014. Borrowings under the facility incur interest at the 30-day LIBOR Daily Floating Rate plus 2.50% as defined, and are secured by domestic accounts receivable and inventory. As of December 31, 2011, the balance outstanding was $3,952,000 under the facility. The Company was in compliance with the borrowing covenant as of December 31, 2011.

The Company's previous domestic bank borrowing facility of $17,000,000 expired on March 15, 2011, and was extended until January 20, 2012. This facility was paid off on September 28, 2011, when the new facility was arranged. Borrowings under the facility incurred interest at the 30-day LIBOR daily floating rate ranging from 2.25% to 3.5%, 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 1.5:1, respectively, and a ratio of 1.10:1 for the year 2010. As of December 31, 2010, the balance outstanding was $8,752,000.

Mueller B.V.'s operating companies have bank borrowing facilities which total $9,782,000. Borrowings under the facilities are at variable rates of one-month Euribor plus 1.32% to 3.34%. 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, 2011. Total borrowing under the facilities was $4,789,000 as of December 31, 2011. Total borrowing under the facilities was $6,509,000 as of December 31, 2010.

As of December 31, 2011, the Companies had notes payable with an outstanding balance of $19,259,900. 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 $15,393,300 as of December 31, 2011, 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 1.76%. Payments are made quarterly	$ 799,800	$ 799,800
Note Payable – Seller financing of Paltrok acquisition. Interest rate was 0%. Payments made annually from, as defined, cash flows, unsecured	1,242,100	955,200
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	4,837,500	645,000
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	5,586,400	2,828,800
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 1.36%. Payments are made quarterly	541,000	35,500
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 1.36% Payments are made quarterly	2,386,500	129,000
Notes Payable related to Mueller B.V. and subsidiaries	$ 15,393,300	$ 5,393,300
Bank – Note Payable secured by plant equipment. Note matures in 2016 with a fixed rate of 5.75%. Payments are made annually	$ 3,866,600	$ 800,400
Domestic Note Payable	$ 3,866,600	$ 800,400
Total Notes Payable	$ 19,259,900	$ 6,193,700

Provisions of the Mueller B.V. note payable ($799,800) require bank approval to pay dividends. The MEKO note payable ($5,586,400) has a tangible net worth requirement and a limitation on the annual repayment amount of the Seller's loan in the amount of $4,837,500. The Paltrok notes payable ($2,927,500) have a tangible net worth requirement. The domestic bank note payable ($3,866,600) has a minimum tangible net worth requirement. The Companies were in compliance with the covenants as of December 31, 2011.

The principal payments of the notes payable as of December 31, 2011, and for future years are listed below:

2012	$ 6,193,700
2013	4,654,300
2014	1,609,900
2015	1,609,900
2016	1,474,500
Thereafter	3,717,600
	$ 19,259,900

At December 31, 2011 and 2010, the fair market value of the Seller-financed note at no interest was $264,500 and $230,000, 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, 2011, there were standby letters of credit totaling $72,072 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, 2011 and 2010:

	2011	2010
Beginning balance	$ 1,261,700	$ 1,609,500
Costs incurred to satisfy warranty claims	(898,100)	(898,500)
Aggregate warranty reserves made	507,700	939,900
Aggregate changes to warranty reserves	(3,300)	(389,200)
Ending balance	$ 868,000	$ 1,261,700

(8) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $2,716,800 and terms exceeding one year. The lease expense for the years ended December 31, 2011, 2010, and 2009, was $1,181,800, $1,223,200, and $842,900, respectively. The future minimum lease payments for each of the years subsequent to December 31, 2011, will be:

2012	$ 1,055,600
2013	885,400
2014	442,000
2015	222,400
2016	111,400
Thereafter	0
	$ 2,716,800

(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).

	2011						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$ 87,670,212	$ 60,273,079	$ 10,672,456	$ 3,372,225	$ –	$ (7,806,852)	$154,181,120
Depreciation & amortization expense	$ 4,578,347	$ 1,825,901	$ 144,563	$ 63,968	$ 795,933	$ –	$ 7,408,712
Income (loss) before income tax	$ 7,838,996	$ (3,014,734)	$ 815,641	$ (95,699)	$ (3,441,784)	$ –	$ 2,102,420
Assets	$ 48,325,527	$ 34,606,143	$ 1,454,683	$ 542,664	$ 18,944,502	$ –	$103,873,519
Additions to property, plant & equipment	$ 1,277,827	$ 263,206	$ 7,900	$ 49,538	$ 156,466	$ –	$ 1,754,937

	2010						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$ 78,799,606	$ 42,071,205	$ 10,616,975	$ 2,921,870	$ –	$ (4,776,718)	$129,632,938
Depreciation & amortization expense	$ 4,695,046	$ 1,815,537	$ 166,968	$ 277,917	$ 1,415,482	$ –	$ 8,370,950
Income (loss) before income tax	$ 4,813,282	$ (10,112,611)	$ 311,741	$ (524,770)	$ (14,494)	$ (50,668)	$ (5,577,520)
Assets	$ 51,119,444	$ 30,159,246	$ 1,298,166	$ 1,976,388	$ 17,724,852	$ –	$102,278,096
Additions to property, plant & equipment	$ 851,133	$ 67,838	$ 13,115	$ –	$ 94,974	$ –	$ 1,027,060

	2009						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$ 81,174,408	$ 69,096,659	$ 20,383,357	$ 3,616,388	$ –	$ (6,752,135)	$167,518,677
Depreciation & amortization expense	$ 4,716,292	$ 2,356,534	$ 333,563	$ 375,089	$ 849,698	$ –	$ 8,631,176
Income (loss) before income tax	$ 3,702,621	$ (8,040,719)	$ 2,046,969	$ (191,437)	$ 834,203	$ 114,888	$ (1,533,475)
Assets	$ 55,369,382	$ 33,756,321	$ 2,900,560	$ 2,231,157	$ 21,203,336	$ –	$115,460,756
Additions to property, plant & equipment	$ 2,028,082	$ 798,831	$ 46,657	$ 1,265	$ 545,841	$ –	$ 3,420,676

Revenues from external customers by product category for the three years ended December 31, 2011, were:

	2011	2010	2009
Milk cooling and storage equipment	$ 84,948,356	$ 78,276,901	$ 79,033,330
Process vessels and tanks	62,021,450	39,218,828	56,284,721
Other industrial equipment	7,211,314	12,137,209	32,200,626
	$ 154,181,120	$ 129,632,938	$ 167,518,677

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, 2011, were:

	2011	2010	2009
United States	$ 80,648,742	$ 55,434,552	$ 87,251,581
North America (excluding the U.S.)	9,718,244	8,667,111	7,537,746
Asia and the Far East	2,370,281	5,740,228	9,529,444
The Netherlands	35,057,885	38,591,192	42,162,158
Other EU countries	24,598,624	17,751,713	17,721,643
Europe (non-EU countries)	278,060	878,432	1,343,537
Other areas	1,509,284	2,569,710	1,972,568
	$ 154,181,120	$ 129,632,938	$ 167,518,677

During 2011, 2010, and 2009, export sales to any one country were not in excess of 10% of consolidated sales.

During 2011, 2010, and 2009, 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, 2011, of $16,540,700 and $30,173,500 were located in the United States and The Netherlands, respectively. 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.

(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. There were no grants under either plan for 2011.

The authority to make additional restricted stock grants under the Director Plan, last approved by a shareholder vote in 2002, expired on January 31, 2012. The remaining shares of restricted stock previously granted to non-employee directors under this plan have vesting dates extending through May 2015.

No stock options are outstanding as of December 31, 2011.

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 $396,572, $893,708, and $413,340, for the years ended December 31, 2011, 2010, and 2009, respectively. As of December 31, 2011, 32,613 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, 2011, was $411,638. 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, 2011, were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2010	91,733	$ 37.08
Vested during the period	(14,162)	$ 22.19
Retirements during the period	(20,477)	$ 29.77
Forfeited during the period	(7,610)	$ 33.87
Purchased during the period	(16,871)	$ 36.71
Nonvested as of December 31, 2011	32,613	$ 49.09

(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, 2011:

	Fair Value Measurements			Assets at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments	$ –	$ 413,000	$ –	$ 413,000
Total	$ –	$ 413,000	$ –	$ 413,000

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

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, 2011, remain in accumulated other comprehensive income (loss) as of the de-designation date and will be reclassified to interest expense. As of December 31, 2011 and 2010, the estimated fair value of the interest rate swaps was a net liability of $413,000 and $409,600, respectively, and was included in other long-term liabilities on the Consolidated Balance Sheets.

(12) Significant Event

Mr. Detelich ceased to serve as the President, CEO, and a Director of the Company on April 19, 2011, and his last day as an employee of the Company was May 19, 2011. The impact of the departure of Mr. Detelich on the 2011 Consolidated Statement of Income includes the following expenses: severance of $715,000; non-compete of $431,200; vesting of restricted stock of $215,008; and an annuity accrual of $2,667,255. The effect of these items was to increase Selling, General, and Administrative Expenses by $4,028,463. The non-compete provision in the employment agreement provides for payments to be made through May 2013.

The Company and Mr. Detelich are involved in arbitration proceedings concerning the validity of his employment agreement and severance arrangements. It is too early in the proceedings for the Company to estimate their likely outcome.

(13) Subsequent Event

The Company was named as a defendant in a lawsuit filed on April 4, 2012, in the Circuit Court of Greene County, Missouri. The lawsuit arises out of a workplace accident that resulted in the death of a Company employee. The petition requests unspecified damages, and the Company cannot assess the suit's potential outcome at this early stage in the proceedings. The Company intends to vigorously defend the lawsuit.

Report of Independent Certified Public Accountants

Board of Directors
Paul Mueller Company and Subsidiaries
Springfield, Missouri

We have audited the accompanying consolidated balance sheet of Paul Mueller Company and Subsidiaries (the Company) as of December 31, 2011, and the related consolidated statements of income (loss), shareholders' investment and comprehensive income (loss), and cash flows for the year ended December 31, 2011. 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 audit. The consolidated balance sheet of Paul Mueller Company and Subsidiaries as of December 31, 2010, and the consolidated statements of income (loss), shareholders' investment and comprehensive income (loss), and cash flows for the years ended December 31, 2010 and 2009, were audited by other auditors whose report, dated June 29, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 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, 2011, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Kansas City, Missouri
April 6, 2012

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2011 and 2010

Selected Financial Data – Five-Year Summary

	2011	2010	2009	2008	2007
Net sales	$ 154,181,120	$ 129,632,938	$ 167,518,677	$ 217,881,755	$ 241,147,181
Net income (loss)	$ 2,016,755	$ (8,937,900)	$ (186,976)	$ 3,726,666	$ 8,428,489
Earnings (loss) per common share:					
Basic	$ 1.68	$ (7.50)	$ (0.16)	$ 3.20	$ 7.31
Diluted	$ 1.64	$ (7.50)	$ (0.16)	$ 3.15	$ 7.18
Common shares outstanding	1,252,977	1,291,074	1,266,229	1,245,630	1,198,562
Dividends declared per common share	$ 0.00	$ 0.00	$ 0.60	$ 2.40	$ 2.40
Total assets	$ 103,873,519	$ 102,278,096	$ 115,460,756	$ 152,571,258	$ 102,954,234
Long-term debt	$ 13,066,161	$ 18,176,949	$ 26,991,997	$ 33,763,216	$ 2,080,674
Shareholders' investment	$ 8,238,446	$ 17,823,465	$ 24,759,037	$ 20,548,515	$ 28,219,318
Working capital	$ (968,272)	$ (5,049,987)	$ 2,480,027	$ 5,832,785	$ 13,389,865
Book value per common share	$ 6.58	$ 13.81	$ 19.55	$ 16.50	$ 23.54
Average number of employees	783	729	971	1,398	1,305

Market and Dividend Information by Quarter

	2011				2010			
	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	$ 22.50	$ 18.85	$ 19.95	$ 27.00	$ 30.00	$ 20.00	$ 24.00
Low	$ 17.00	$ 14.55	$ 14.25	$ 13.50	$ 19.25	$ 18.50	$ 16.50	$ 14.56
Cash Dividends –								
Declared per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 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 2011 and 2010.

Financial Highlights by Quarter (Unaudited)
For the Years 2011 and 2010
(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2011	2010	2011 (a)(c)	2010	2011 (a)(c)	2010	2011 (a)(b)(c)(d)	2010
Net sales	$ 30,828	$ 25,178	$ 42,561	$ 32,615	$ 36,814	$ 36,962	$ 43,978	$ 34,878
Gross profit	$ 9,959	$ 5,912	$ 13,825	$ 10,827	$ 12,066	$ 8,189	$ 11,433	$ 10,759
Net (loss) income	$ (257)	$ (2,921)	$ (1,201)	$ 767	$ (116)	$ (1,007)	$ 3,590	$ (5,777)
Earnings (loss) per common share:								
Basic	$(0.22)	$(2.45)	$ (1.00)	$ 0.64	$(0.10)	$(0.84)	$2.96	$ (4.85)
Diluted	$(0.22)	$(2.45)	$ (1.00)	$ 0.63	$(0.10)	$(0.84)	$2.96	$ (4.85)

(a) The results for the second quarter ended June 30, 2011, were adversely affected by severance and noncompete expense totaling $776,000 and the accrual of $2,667,000 (a non-cash charge) for the actuarial present value of a life annuity, all of which are in accordance with the employment agreement of the former President and CEO.

The former President and CEO resigned on April 19, 2011. His employment agreement provides for 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.

(b) The results for the fourth quarter ended December 31, 2011, included the sale of Springfield Brewing Company to Front Row Property LLC. The selling price was $3,000,000, which included a promissory note for $400,000 payable over five years. The gain on the sale of Springfield Brewing Company was $580,000.

(c) The results for the second, third, and fourth quarters ended December 31, 2011, were adversely affected by an increase in the LIFO reserve of $117,000, $118,000, and $828,000, respectively.

(d) The results for the fourth quarter ended December 31, 2011, were favorably affected by the reduction of the valuation allowance against a portion of the Company's net deferred tax assets of $880,000.

PAUL MUELLER COMPANY

DIRECTORS

*** **WILLIAM L. FUERST**
Professor of Business and
Former Dean – University of Kansas

*** **JOHN J. GHIRARDELLI**
President and CEO –
The Killian Group of Companies

* **DONALD E. GOLIK**
Chairman of the Board

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

* **DAVID T. MOORE**
President and CEO

*** **JEAN L. MORRIS**
Marketing and Design Coordinator –
Big Cedar Lodge

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

* Executive Committee Member
** Audit Committee Member
*** Nominating & Compensation Committee Member

CHAIRMAN EMERITUS

PAUL MUELLER

EXECUTIVE OFFICERS

DAVID T. MOORE
President and CEO

MARCELINO RODRIGUEZ
Chief Financial Officer 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

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.

PAUL MUELLER COMPANY
Corporate Office and Main Plant
Springfield, Missouri

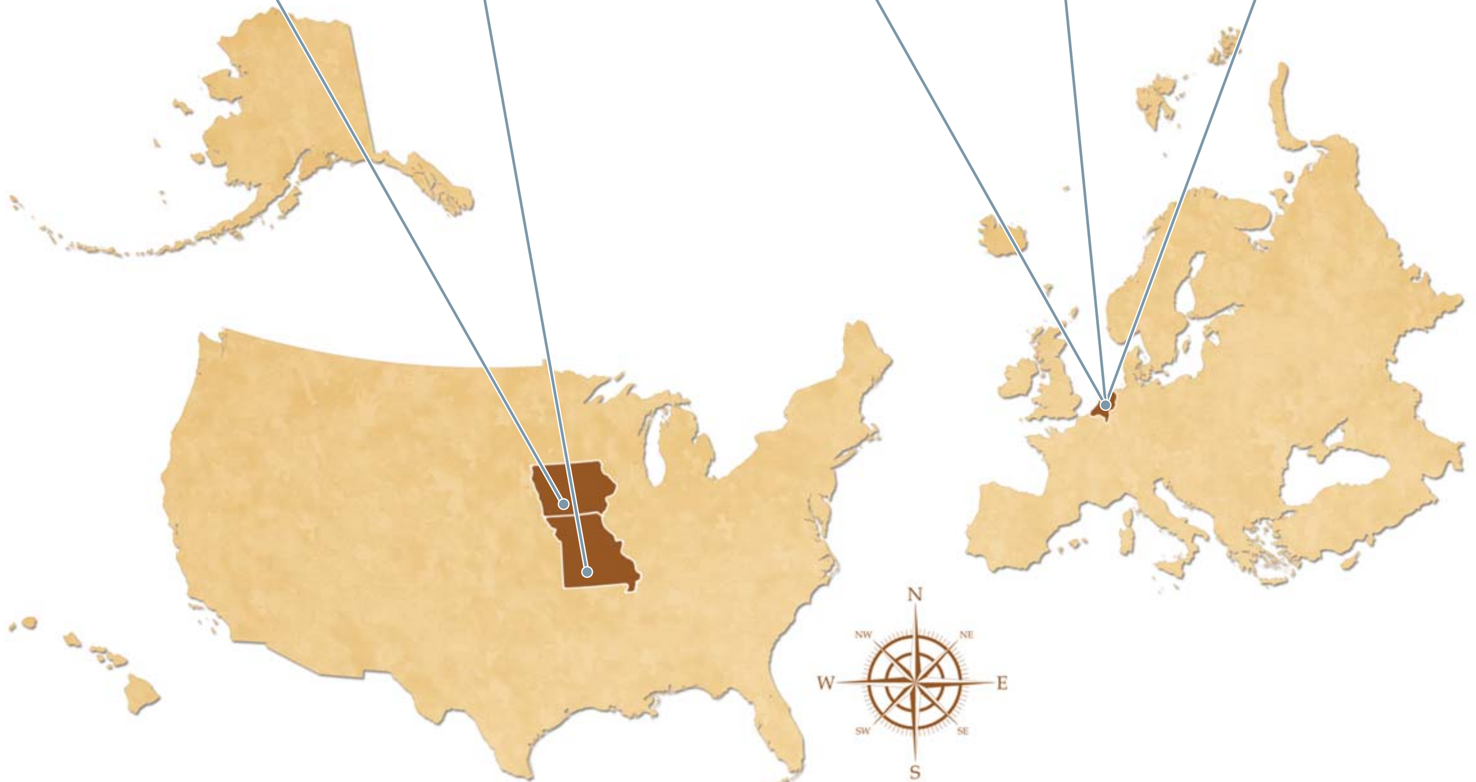
Mueller Iowa Plant
Osceola, Iowa

Mueller Warren St. Plant
Springfield, Missouri

Mueller B.V. Sales Office
Assen, The Netherlands

Mueller B.V. Plant
Lichtenvoorde, The Netherlands

Mueller B.V. Service Facility
Wesepe, The Netherlands



MUELLER®

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