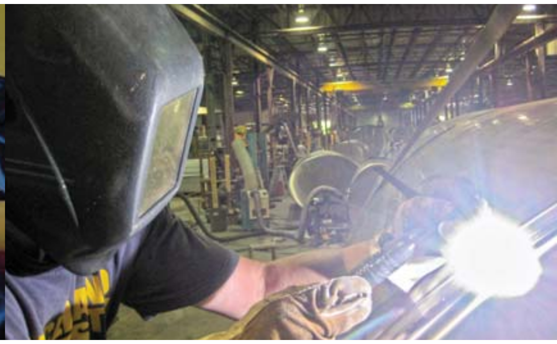





2012
ANNUAL REPORT
Paul Mueller Company



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

	2012	2011
Net Sales	**$ 179,561,000**	$ 154,181,000
Income Before Taxes	**$ 3,265,000**	$ 2,074,000
Provision for Income Taxes	**1,300,000**	57,000
Net Income	**$ 1,965,000**	$ 2,017,000
Earnings Per Common Share:		
Basic	**$ 1.61**	$ 1.68
Diluted	**$ 1.59**	$ 1.64

Year-End Position

	2012	2011
Total Assets	**$ 101,466,000**	$ 100,592,000
Working Capital	**$ (3,605,000)**	$ (968,000)
Current Ratio	**.93 : 1**	.98 : 1
Net Worth	**$ (1,465,000)**	$ 8,239,000
Book Value Per Share	**$ (1.18)**	$ 6.58
Common Shares Outstanding	**1,239,628**	1,252,977
Backlog (Unaudited)	**$ 47,929,000**	$ 51,714,000

Fellow Shareholders:

In 2012, our Company had another profitable year with net income of $1,965,000. Although our backlog fell by $3.8 million in 2012, it remains strong. This decline occurred mostly in The Netherlands and our Dairy Farm Equipment business in the United States; however, these businesses are performing profitably at this level of backlog and are expecting another strong year.

Our Company has made significant changes in the way that it operates in an effort to increase accountability and move decision-making authority lower in the organization. In the United States, our product line managers have assumed a greater level of responsibility for the financial performance of the businesses. They have made financial information more openly available within their groups and have broadened participation in forecasting and managing performance. They have become general managers rather than sales or operational managers, and their staffs have become more sensitive to the financial affects of their decisions. This open-book style of management has resulted in substantial changes in the pace and effectiveness of our activities.

At the same time, in The Netherlands, we have made similar changes. Four years after the acquisition of the companies that form our Dutch subsidiary, those companies have achieved a much higher level of integration. They have combined their operations so that we are now seeing the operational and marketing skills of each of them improve the Dutch business as a whole. As an example, we secured a contract with Horeca Netherlands providing our cellar beer tanks as the preferred solution for their 28,000 hotel, restaurant, and catering members. This was achieved by Ntray, a new product line formed by the efforts of all three of our Dutch locations.

In addition, our Board of Directors has continued to evolve to reflect these changes. We are pleased to see John Ghirardelli become Chairman of the Board. John's work to organize the activities of the Board to support our progress has been instrumental. Also, Jack Stack, President and CEO of SRC Holdings, has agreed to serve as a director and will be nominated for shareholder approval at the upcoming Annual Meeting. During 2012, our Company has worked closely with SRC Holdings Corporation, using their open-book management model to assist with these changes.

The positive advancements in the structure and operations of the Company were not reflected in our financial results. Despite the 16.5% increase in revenue in 2012, we did not improve the bottom line. These results did contain nonrecurring expenses of $2 million related to the final settlement of the arbitration between the Company and the former CEO.

Our Company consists of four segments, Dairy Farm Equipment, Industrial Equipment, Field Fabrication, and Transportation; and while some performed well in 2012, others present clear opportunities for improvement.

One of the strong performers in 2012 was the Dairy Farm Equipment segment. This segment is comprised of our Dairy Farm Equipment and Refrigeration Products product lines in the United States, managed by John Hawkins, and by the largest part of our Dutch subsidiary, Mueller B.V., managed by Wytze Tjepkema. Both groups increased their revenue and margins, while their backlog fell by a combined 38.8%. The fall in backlog, in such a strongly contributing segment, is a concern for 2013. However, both businesses have sufficient work and the backlog has already begun to improve this year.

Our Industrial Equipment segment showed a significant increase in revenue and a decline in income. This occurred because of lower results across each of the industrial product lines, except Processing Equipment, which showed an improvement. The six main product lines in Industrial Equipment are:

- PyroPure: The product line consistently achieves gross margins, which are above the average margins in our industrial segment; however, it did not produce the sales volume required to perform profitably. 2012 was spent rebuilding the sales force, recruiting three strong sales people and a manufacturer's representative.

- Components: Our Component Products group, managed by Russ Copeland, had another great year in 2012. Russ' group is profitably working three shifts on excellent margins. However, 2012 was not as strong as 2011, in which we had a few large specialty jobs. These opportunities were not repeated in 2012, causing Component Products to contribute to the year-over-year fall in Industrial Equipment performance. We expect Component Products' strong results to continue. The 2013 starting backlog is slightly more than twice the 2012 starting backlog.

- Accu-Therm and Temp-Plate: These two heat transfer product lines, managed by Terry Snell, were each profitable and showed increasing gross margins. However, they had lower revenues and realized a decrease in income before tax over 2011. The combined 2013 beginning backlog in these two product lines is 32.2% higher than a year earlier.

- Over-the-Road: Our newest product line for tank trailers achieved its first revenue in November 2012. During its start-up, it contributed negatively to our results in the Industrial Equipment segment. This group is making rapid progress. They already have trailers designed for three different applications with an assembly line and sales backlog for each.

- Processing Equipment: This product line is the largest product line in the Industrial Equipment segment, and can have the biggest impact on its results. It has been persistently unprofitable; however, in 2012 it made significant progress toward profitability by securing more favorable pricing for our products and executing our orders more efficiently. This product group manufactures custom equipment, and its performance is heavily influenced by how quickly we can finalize a manufacturing plan and secure the materials for each of the custom orders. During 2012 we reduced by half the time required to purchase materials after we secure an order. We are beginning to see a corresponding improvement in throughput and on-time performance. These changes resulted in the $1,969,000 improvement in income before tax of this product line for 2012; the progress continues.

In the Field Fabrication segment, we generated a loss on much higher revenue. This was due primarily to a single construction job, which is nearly completed. The 2013 starting backlog is slightly lower than a year earlier.

The Transportation segment, managed by Jeremy Rogles, had a strong year generating $107,000 in income as compared to a loss in the prior year.

Finally, shareholders' equity was reduced by $12,221,000 due to a change in the valuation of the pension liability. The pension plans are frozen and no additional benefits are being accrued. The change in liability is due to low interest rates increasing the present value of those benefits.

In summary, some segments continued on a strong growth path during 2012, while others experienced generally softer conditions. Nevertheless, our business process improvements cause us to be optimistic for the coming year. I am proud of the changes that my coworkers have made to respond more effectively to our opportunities, and I am appreciative of your support of our efforts.

David Moore
President and CEO

March 28, 2013

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; transportation; 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.

MUELLER

Consolidated Statements of Income (Loss) for the Years Ended December 31, 2012, 2011, and 2010

	2012	2011	2010
Net Sales	$ 179,561,000	$ 154,181,000	$ 129,633,000
Cost of Sales	133,447,000	106,897,000	93,946,000
Gross profit	$ 46,114,000	$ 47,284,000	$ 35,687,000
Selling, General, and Administrative Expenses	42,036,000	43,925,000	39,338,000
Operating income (loss)	$ 4,078,000	$ 3,359,000	$ (3,651,000)
Other Income (Expense):			
Interest income	$ 48,000	$ 54,000	$ 43,000
Interest expense	(1,121,000)	(1,881,000)	(1,862,000)
Other, net	260,000	570,000	(108,000)
Total Other Income (Expense)	$ (813,000)	$ (1,257,000)	$ (1,927,000)
Income (loss) before provision (benefit) for income taxes and equity in income (loss) of joint ventures	$ 3,265,000	$ 2,102,000	$ (5,578,000)
Provision for Income Taxes	$ 1,300,000	$ 57,000	$ 3,170,000
Income (Loss) Before Equity in (Loss) of Joint Ventures	$ 1,965,000	$ 2,045,000	$ (8,748,000)
Equity in (Loss) of Joint Ventures	–	(28,000)	(190,000)
Net Income (Loss)	$ 1,965,000	$ 2,017,000	$ (8,938,000)
Earnings (Loss) Per Common Share:			
Basic	$ 1.61	$ 1.68	$ (7.50)
Diluted	$ 1.59	$ 1.64	$ (7.50)

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

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2012, 2011, and 2010

	2012	2011	2010
Net Income (Loss)	$ 1,965,000	$ 2,017,000	$ (8,938,000)
Other Comprehensive Income (Loss), Net of Tax:			
Foreign currency translation adjustment	$ 413,000	$ (552,000)	$ (628,000)
Change in pension liability	(12,221,000)	(10,919,000)	1,656,000
Amortization of de-designated hedges	57,000	69,000	81,000
Other Comprehensive Income (Loss)	$ (9,786,000)	$ (9,385,000)	$ (7,829,000)

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

Consolidated Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 430,000	$ 5,398,000
Accounts receivable, less reserve for doubtful accounts of $265,000 for 2012 and $232,000 for 2011	21,455,000	17,073,000
Costs and estimated earnings in excess of billings	1,006,000	182,000
Inventories: Raw materials and components	$ 8,963,000	$ 8,998,000
Work-in-process	6,132,000	6,365,000
Finished goods	8,581,000	7,540,000
	$ 23,676,000	$ 22,903,000
Prepayments	2,258,000	2,413,000
Total current assets	$ 48,825,000	$ 47,969,000
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 5,668,000	$ 5,517,000
Buildings	18,681,000	18,551,000
Fabrication equipment	78,821,000	76,404,000
Transportation, office, and other equipment	16,624,000	16,568,000
Construction-in-progress	438,000	162,000
	$ 120,232,000	$ 117,202,000
Less: Accumulated depreciation	(86,208,000)	(80,951,000)
	$ 34,024,000	$ 36,251,000
Goodwill	13,610,000	8,187,000
Deferred Tax Assets	1,935,000	4,225,000
Other Assets	3,072,000	3,960,000
	$ 101,466,000	$ 100,592,000
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 15,705,000	$ 8,741,000
Current maturities of long-term debt	4,063,000	6,194,000
Accounts payable	10,502,000	8,658,000
Accrued expenses: Income taxes	86,000	–
Payroll and benefits	4,491,000	5,817,000
Vacations	1,295,000	1,151,000
Other	3,366,000	2,570,000
Advance billings	11,079,000	12,822,000
Billings in excess of costs and estimated earnings	1,843,000	2,984,000
Total current liabilities	$ 52,430,000	$ 48,937,000
Long-Term Pension Liabilities	34,363,000	26,488,000
Long-Term Debt, Less Current Maturities	14,404,000	13,066,000
Other Long-Term Liabilities	1,734,000	3,862,000
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,507,481 shares for 2012 and 2011	$ 1,508,000	$ 1,508,000
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	9,550,000	9,351,000
Retained earnings	29,489,000	27,524,000
	$ 40,547,000	$ 38,383,000
Less: Treasury stock – 267,853 shares for 2012 and 254,504 shares for 2011, at cost	(5,057,000)	(4,752,000)
Common stock held by Rabbi Trust – 0 shares for 2012 and 7,236 shares for 2011	–	(188,000)
Accumulated other comprehensive loss	(36,955,000)	(25,204,000)
	$ (1,465,000)	$ 8,239,000
	$ 101,466,000	$ 100,592,000

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

Consolidated Statements of Shareholders' Investment for the Years Ended December 31, 2012, 2011, and 2010

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance – 12-31-2009	$ 1,482,000	$ 7,847,000	$ 34,445,000	$ (4,104,000)	$(14,911,000)	$ 24,759,000
Add (Deduct):						
Net (loss)	–	–	(8,938,000)	–	–	$ (8,938,000)
Other comprehensive income (loss), net of tax:	–	–	–	–	1,109,000	1,109,000
Restricted stock issued	23,000	(23,000)	–	–	–	–
Restricted stock forfeitures	–	23,000	–	(23,000)	–	–
Common stock issued to Rabbi Trust	3,000	77,000	–	(80,000)	–	–
Deferred compensation amortization	–	894,000	–	–	–	894,000
Balance – 12-31-2010	$ 1,508,000	$ 8,818,000	$ 25,507,000	$ (4,207,000)	$(13,802,000)	$ 17,824,000
Add (Deduct):						
Net income	–	–	2,017,000	–	–	$ 2,017,000
Other comprehensive income (loss), net of tax:	–	–	–	–	(11,402,000)	(11,402,000)
Restricted stock forfeitures	–	136,000	–	(136,000)	–	–
Treasury stock acquisition	–	–	–	(597,000)	–	(597,000)
Deferred compensation amortization	–	397,000	–	–	–	397,000
Balance – 12-31-2011	$ 1,508,000	$ 9,351,000	$ 27,524,000	$ (4,940,000)	$(25,204,000)	$ 8,239,000
Add (Deduct):						
Net income	–	–	1,965,000	–	–	$ 1,965,000
Other comprehensive income (loss), net of tax:	–	–	–	–	(11,751,000)	(11,751,000)
Restricted stock forfeitures	–	120,000	–	(120,000)	–	–
Treasury stock acquisition	–	(36,000)	–	3,000	–	(33,000)
Deferred compensation amortization	–	115,000	–	–	–	115,000
Balance – 12-31-2012	$ 1,508,000	$ 9,550,000	$ 29,489,000	$ (5,057,000)	$(36,955,000)	$ (1,465,000)

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

Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011, and 2010

	2012	2011	2010
Cash Flows from Operating Activities:			
Net income (loss)	$ 1,965,000	$ 2,017,000	$ (8,938,000)
Adjustments to reconcile net income (loss) to net cash (required) provided by operating activities:			
Equity in (income) loss of joint ventures	–	28,000	190,000
Pension liability	(4,346,000)	69,000	721,000
Bad debt expense	65,000	2,000	608,000
Depreciation and amortization	6,199,000	7,409,000	8,371,000
(Gain) loss on sales of equipment	(26,000)	(668,000)	(876,000)
Deferred tax (benefit) expense	(17,000)	(136,000)	(3,813,000)
Deferred tax valuation allowance – change	304,000	(124,000)	5,972,000
Other	1,000	14,000	–
Changes in assets and liabilities, net of effect of acquisitions –			
(Increase) decrease in accounts and notes receivable	(4,291,000)	(1,084,000)	(601,000)
(Increase) decrease in costs in excess of estimated earnings and billings	(824,000)	436,000	(133,000)
(Increase) decrease in inventories	(546,000)	(4,939,000)	(2,021,000)
(Increase) decrease in prepayments	(23,000)	(676,000)	(120,000)
(Increase) decrease in other assets	438,000	(614,000)	25,000
Increase (decrease) in accounts payable	1,919,000	1,197,000	185,000
Increase (decrease) in other accrued expenses	(450,000)	1,652,000	(1,654,000)
Increase (decrease) in advance billings	(1,744,000)	8,170,000	539,000
Increase (decrease) in billings in excess of costs and estimated earnings	(1,141,000)	2,776,000	(158,000)
Increase (decrease) in other long-term liabilities	62,000	(550,000)	94,000
Net cash (required) provided by operating activities	$ (2,455,000)	$ 14,979,000	$ (1,609,000)
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sales of equipment	$ 40,000	4,211,000	3,000
Additions to property, plant, and equipment	(3,516,000)	(1,755,000)	(1,027,000)
Net cash (required) provided by investing activities	$ (3,476,000)	$ 2,456,000	$ (1,024,000)
Cash Flow Provisions (Requirements) from Financing Activities:			
Proceeds (repayment) of short-term borrowings	$ 4,833,000	$ (6,467,000)	$ 8,056,000
Long-term debt proceeds	–	1,311,000	–
Repayment of long-term debt	(3,948,000)	(7,374,000)	(7,170,000)
Treasury stock acquisitions	(33,000)	(597,000)	–
Other	57,000	67,000	–
Net cash (required) provided by financing activities	$ 909,000	$ (13,060,000)	$ 886,000
Effect of Exchange Rate Changes	54,000	(111,000)	113,000
Net (Decrease) Increase in Cash and Cash Equivalents	$ (4,968,000)	$ 4,264,000	$ (1,634,000)
Cash and Cash Equivalents at Beginning of Year	5,398,000	1,134,000	2,768,000
Cash and Cash Equivalents at End of Year	$ 430,000	$ 5,398,000	$ 1,134,000

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

Notes to Consolidated Financial Statements

(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, "Acquisitions"). All significant intercompany balances and transactions have been eliminated in consolidation. 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 – As a part of the acquisitions made during 2008, 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, 2012 and 2011, were as follows:

	2012	2011
Costs incurred on uncompleted contracts	$ 23,058,000	$ 3,911,000
Estimated earnings (loss)	(467,000)	962,000
	$ 22,591,000	$ 4,873,000
Less: Billings to date	23,428,000	7,675,000
	$ (837,000)	$ (2,802,000)

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2012 and 2011, under the following captions were:

	2012	2011
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 1,006,000	$ 182,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,843,000)	(2,984,000)
	$ (837,000)	$ (2,802,000)

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 $461,000 as of December 31, 2012. Retainages included in accounts receivable as of December 31, 2011, were $15,000.

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

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

In certain instances, the Companies invoice customers when a contract is signed in advance of work being performed (commonly referred to as "advanced billing" transactions). In such circumstances, once the contract is signed by the customer to perform the work, the Companies issue an invoice or advance billing. No revenue is recognized on these transactions. The effect on the financial statements is to record an accounts receivable and a liability (advanced billing). These amounts are netted together at each reporting period. As of December 31, 2012 and 2011, the amounts in advanced billings were $11,079,000 and $12,822,000, respectively.

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 $10,673,000 and $10,900,000 higher than those reported at December 31, 2012 and 2011, respectively.

Inventories of Mueller B.V. were $11,147,000 and $9,764,000 as of December 31, 2012 and 2011, 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, 2012 and 2011.

Property, Plant, and Equipment – Certain amounts in the consolidated 2011 financial statements were reclassified in 2012 to conform to the classification adopted in 2012. The reclassification resulted in an increase to Buildings of $1,848,000 and a decrease to Land and Land Improvements of $1,848,000.

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 $5,728,000, $6,791,000, and $6,749,000 for the years ended December 31, 2012, 2011, and 2010, 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.

Research and Development – Research and development costs are charged to expense as incurred and were $445,000 during 2012, $446,000 during 2011, and $815,000 during 2010.

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, 2012 and 2011, there were no impairments.

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

	2012	2011	2010
Net income (loss)	$ 1,965,000	$ 2,017,000	$ (8,938,000)
Shares for basic earnings per common share –			
Weighted-average shares outstanding	1,217,051	1,199,640	1,192,105
Dilutive effect of restricted stock	18,492	32,251	10,460
Shares for diluted earnings per common share –			
Adjusted weighted-average shares outstanding	1,235,543	1,231,891	1,202,565
Earnings (loss) per common share:			
Basic	$ 1.61	$ 1.68	$ (7.50)
Diluted	$ 1.59	$ 1.64	$ (7.50)

Comprehensive Income – The components of other comprehensive income (loss) for the years ended December 31, 2012, 2011, and 2010, were as follows:

	2012	2011	2010
Foreign currency translation adjustment	$ 413,000	$ (552,000)	$ (628,000)
Tax	–	–	–
Foreign currency translation adjustment, net of tax	$ 413,000	$ (552,000)	$ (628,000)
Change in pension liability	$ (12,221,000)	$ (10,919,000)	$ 2,692,000
Tax	–	–	(1,036,000)
Change in pension liability, net of tax	$ (12,221,000)	$ (10,919,000)	$ 1,656,000
Amortization on de-designated hedges	$ 57,000	$ 69,000	$ 81,000
Other comprehensive income (loss)	$ (11,751,000)	$ (11,402,000)	$ 1,109,000

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, 2012, were as follows:

	2012	2011	2010
Interest payments	$ 1,134,000	$ 1,791,000	$ 1,867,000
Income tax payments	$ 1,166,000	$ 1,372,000	$ 496,000
Non-cash activities related to investing and financing activities:			
Note receivable on sale of Springfield Brewing Company	$ –	$ 400,000	$ –
Change in equity related to swap position	$ 57,000	$ 69,000	$ 81,000
Note receivable on sale of joint venture	$ 172,000	$ 415,000	$ 492,000
Increase in goodwill and note payable related to Rollbas acquisition	$ 5,422,000	$ –	$ –

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

	Shares	
	Common	Treasury
Balance – December 31, 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
Restricted stock forfeitures	–	4,751
Treasury stock acquisition	–	8,598
Balance – December 31, 2012	1,507,481	267,853

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 not amortized, but instead is tested for impairment as of November 30, or more frequently, if events or changes in circumstances indicate that impairment may be present. Application of goodwill impairment testing involves judgment, including but not limited to, the identification of reporting units and estimating the fair value of each reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment. Goodwill is tested at the reporting unit level. The goodwill impairment test consists of comparing the fair value of each reporting unit, determined using discounted cash flows, to each reporting unit's respective carrying value. If the estimated fair value of a reporting unit exceeds its carrying value, there is no impairment. If the carrying amount of the reporting unit exceeds its estimated fair value, goodwill impairment is indicated. The amount of the impairment is determined by comparing the fair value of the net assets of the reporting unit, excluding goodwill, to its estimated fair value, with the difference representing the implied fair value of goodwill. If the implied fair value of the goodwill is lower than its carrying value, the difference is recorded as an impairment charge in the consolidated statements of income.

On November 30, 2012, the Company completed the annual impairment test of goodwill. The estimated fair value of the reporting unit exceeded its carrying value as of the end of November 2012, and there was no goodwill impairment indicated at that time. There were no impairment indicators present during or at the end of 2012.

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, 2012, based upon borrowing rates available for indebtedness with similar terms and average maturities incorporating the nonperformance risk of the Company, 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 December 2011, the FASB issued ASU 2011-11 – "Balance Sheet (Topic 210): Disclosures About Offsetting Assets and Liabilities." This update requires additional disclosures about offsetting and related arrangements on assets and liabilities to enable users of financial statements to understand the effect of such arrangements on an entity's financial position as reported. This amendment is effective for fiscal 2014, and adoption of this standard change will only affect the footnote disclosures within the consolidated financial statements. Once adopted, these disclosure provisions will apply retrospectively for all comparative periods presented.

In July 2012, the FASB issued ASU 2012-2 – "Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This update provides an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired and then determine whether it should perform a quantitative impairment test. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The additional option for evaluating impairment will not have a material impact on the Company's 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 was to be repaid annually from, as defined, cash flows generated by Paltrok until the loan was paid in full.

After the loan was to be paid in full, the SPA provided 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 was at least $7,486,000 or a higher amount calculated from the payout formula, then no additional amount was to become payable. In the event that, within the five-year period, contingent consideration was less than $7,486,000, then the period to earn contingent consideration was to be extended for two additional years. If, within the two-year period, the contingent consideration reached at least $7,486,000 or the two-year period ends, then no additional amount was to be payable.

On December 12, 2012, the SPA was amended to change the contingent consideration payable to Rollbas from a calculated payout formula to a fixed amount. The fixed amount agreed to in the amendment is $5,280,000, payable in three annual installments, beginning on March 1, 2013. The interest rate is zero.

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, 2012, 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	$ 11,016,000	$ 17,980,000
Property and equipment	11,057,000	20,261,000
Intangible asset backlog	1,227,000	752,000
Other intangible assets	–	4,578,000
Goodwill	3,099,000	5,926,000
Other assets	434,000	465,000
Total assets acquired	$ 26,833,000	$ 49,962,000
Current liabilities	$ 6,485,000	$ 20,985,000
Long-term debt	4,110,000	13,237,000
Deferred taxes	1,579,000	1,276,000
Other liabilities	538,000	444,000
Total liabilities assumed	$ 12,712,000	$ 35,942,000
Purchase price	$ 14,121,000	$ 14,020,000

(3) Goodwill and Intangible Assets:

Intangible assets as of December 31, 2012 and 2011, 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, 2010	$ 827,000	$ 2,083,000	$ 2,910,000
Amortization 2011	(269,000)	(303,000)	(572,000)
Foreign currency fluctuation	(15,000)	(47,000)	(62,000)
Balance as of December 31, 2011	$ 543,000	$ 1,733,000	$ 2,276,000
Amortization 2012	(197,000)	(293,000)	(490,000)
Foreign currency fluctuation	7,000	33,000	40,000
Balance as of December 31, 2012	$ 353,000	$ 1,473,000	$ 1,826,000

Average amortization periods for brand names and customer relationships are six and nine years, respectively. Aggregate amortization of intangible assets was $490,000, $572,000, and $594,000 for the years ended December 31, 2012, 2011, and 2010, respectively. Estimated aggregate amortization for the next five years and thereafter is as follows:

2013	$ 503,000
2014	453,000
2015	301,000
2016	301,000
2017	236,000
Thereafter	32,000
	$ 1,826,000

The changes in the carrying amount of goodwill for the years ended December 31, 2012, 2011, and 2010, were as follows:

Balance as of December 31, 2009	$ 8,868,000
Foreign currency fluctuation	(513,000)
Balance as of December 31, 2010	$ 8,355,000
Foreign currency fluctuation	(168,000)
Balance as of December 31, 2011	$ 8,187,000
Foreign currency fluctuation	1,000
Share purchase agreement amendment	5,422,000
Balance as of December 31, 2012	$ 13,610,000

As a result of the amendment to the Share Purchase Agreement between Mueller B.V. and Rollbas B.V., signed on December 12, 2012, goodwill increased by $5,422,000. The amendment changed the calculated payout formula to a fixed amount.

(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 $593,000 for 2012, $546,000 for 2011, and $279,000 for 2010.

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 $1,230,000 for 2012, $1,247,000 for 2011, and $1,199,000 for 2010.

Total domestic pension expense under the plans was $1,874,000 for 2012, $2,879,000 for 2011, and $3,116,000 for 2010. Management's policy is to fund pension contributions that are currently deductible for tax purposes. Contributions of $1,593,000 will be made during 2013. 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:

	2012	2011
Change in projected benefit obligation –		
Benefit obligation as of beginning of year	$ 89,156,000	$ 77,175,000
Service cost	–	188,000
Interest cost	4,878,000	4,671,000
Curtailments	–	1,950,000
Settlements	(3,683,000)	–
Actuarial loss	14,295,000	8,634,000
Benefits paid and expenses	(4,060,000)	(3,462,000)
Benefit obligation as of end of year	$ 100,586,000	$ 89,156,000
Change in plan assets –		
Fair value of plan assets as of beginning of year	$ 62,635,000	$ 61,641,000
Actual return on plan assets	5,079,000	1,083,000
Employer contributions	6,220,000	3,373,000
Benefits paid and expenses	(7,744,000)	(3,462,000)
Fair value of plan assets as of end of year	$ 66,190,000	$ 62,635,000
Funded status	$ (34,396,000)	$ (26,521,000)
Less amount included in accrued expenses	$ 33,000	$ 33,000
Funded status as of end of year	$ (34,363,000)	$ (26,488,000)

Components of pension expense for the three years were:

	2012	2011	2010
Service cost	$ –	$ 188,000	$ 1,510,000
Interest cost	4,878,000	4,671,000	4,749,000
Expected return on plan assets	(4,494,000)	(5,156,000)	(4,747,000)
Amortization of prior service cost	–	22,000	147,000
Recognized net actuarial loss	867,000	664,000	1,238,000
Curtailment charge	–	2,490,000	219,000
Settlement charge	623,000	–	–
Net periodic pension expense	$ 1,874,000	$ 2,879,000	$ 3,116,000

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

	2012	2011
Projected benefit obligations	$ 100,586,000	$ 89,156,000
Accumulated benefit obligations	$ 100,586,000	$ 89,156,000
Fair value of plan assets	$ 66,190,000	$ 62,635,000

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

	2012	2011
Discount rate	4.48%	5.60%
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:

	2012	2011	2010
Discount rate	5.60%	6.10%	6.51%
Expected long-term return on plan assets	7.25%	8.38%	8.38%
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 6.10% for 2011 to 5.60% for 2012. The effect of the rate decrease was to increase pension expense by $88,000 for 2012. 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 7.25% for 2012 and 8.38% for 2011.

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 securities, 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:

	2012	2011
Asset category:		
Fixed income	42%	51%
Equities	55%	45%
Other	3%	4%
	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, 2012 and 2011:

Asset Category	Market Value at 12-31-12	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 3,874,000	$ 3,874,000[c]	$ –	$ –
Equity securities:				
Value	11,557,000	11,557,000[a]	–	–
Growth	16,111,000	14,491,000[b]	1,620,000[a]	–
Fixed income securities	34,014,000	–	34,014,000[e]	–
General investment	634,000	–	–	634,000[f]
Total plan assets	$ 66,190,000	$ 29,922,000	$ 35,634,000	$ 634,000

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[d]	$ –
Equity securities:				
Value	12,391,000	12,391,000[b]	–	–
Growth	18,367,000	16,974,000[a]	1,393,000[a]	–
Fixed income securities	30,266,000	–	30,266,000[c]	–
General investment	559,000	–	–	559,000[b]
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 2012. The balance was $634,000 as of December 31, 2012.

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

2013	$ 4,290,000
2014	4,511,000
2015	4,631,000
2016	4,854,000
2017	5,122,000
2018 through 2022	28,226,000
	$ 51,634,000

Included in accumulated other comprehensive loss as of December 31, 2012, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $44,853,000 ($27,585,000, net of tax). 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 $32,633,000 ($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 $562,000 ($346,000, net of tax) and unrecognized actuarial losses of $20,591,000 ($12,663,000, 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, 2013, is $1,301,000.

(5) Income Taxes:

The provision for taxes on income before income taxes included:

	2012	2011	2010
Current tax expense	$ 1,013,000	$ 317,000	$ 1,011,000
Deferred, net	(17,000)	(136,000)	(3,813,000)
Valuation allowance – change	304,000	(124,000)	5,972,000
	$ 1,300,000	$ 57,000	$ 3,170,000

The Company established a $5,972,200 valuation allowance for a portion of domestic net deferred tax assets in the last quarter of 2010. This allowance was increased by $4,930,000 and $4,296,000 in 2012 and 2011, respectively. 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 four years. Management believes the Company will generate sufficient taxable income in the future to utilize the net deferred tax assets. However, in accordance with FASB Accounting Standards Codification 740 – "Accounting for Income Taxes," a valuation allowance is required for net deferred tax assets in such circumstances, unless the ultimate realization of the net deferred tax assets is more likely than not. In the event management determines that it will be able to realize deferred tax assets in the future in excess of the recorded amount, they will make an adjustment to the valuation allowance. 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, 2012 and 2011, is shown below:

	2012	2011
Deferred tax assets:		
Workers compensation	$ 203,000	$ 192,000
Vacation	493,000	458,000
Warranty	125,000	96,000
Doubtful accounts	53,000	62,000
Pensions	12,963,000	9,874,000
Inventory	264,000	262,000
Tax attribute carryforward	6,174,000	4,379,000
Other	1,179,000	1,108,000
	$ 21,454,000	$ 16,431,000
Deferred tax liabilities:		
Intangibles	(1,179,000)	(1,105,000)
Property, plant, and equipment	(2,756,000)	(2,578,000)
Net	$ 17,519,000	$ 12,748,000
Valuation allowance	(15,198,000)	(10,269,000)
Net deferred tax assets	$ 2,321,000	$ 2,479,000

As of December 31, 2012, net current deferred tax assets were $386,000; net noncurrent deferred tax assets were $4,129,000; and net noncurrent deferred tax liabilities were $2,194,000, the total of which includes a valuation allowance of $15,198,000. As of December 31, 2011, net current deferred tax assets were $424,000; net noncurrent deferred tax assets were $4,225,000; and net noncurrent deferred tax liabilities were $2,170,000, the total of which includes a valuation allowance of $10,269,000. On the accompanying Consolidated Balance Sheets, net current deferred tax assets are included in prepayments, net noncurrent deferred tax assets or liabilities are included in other long-term assets or liabilities as appropriate. Income taxes receivable at December 31, 2012 and 2011, were $170,000 and $172,000, 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, 2012, the tax effected deferred tax assets included $922,000 related to state net operating losses and $4,975,000 related to federal net operating losses, which expire between the years 2014 and 2032. Tax credits and capital loss carryforwards as of December 31, 2012, of $277,000 are included in deferred tax assets and expire between the years 2014 and 2032.

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, 2012, follows:

	2012	Rates	2011	Rates	2010	Rates
Statutory federal income tax expense	$ 1,110,000	34%	$ 715,000	34%	$ (1,898,000)	34%
Increase (decrease) in taxes resulting from:						
Tax credits	–	0%	–	0%	36,000	(1%)
State tax, net of federal benefit	47,000	2%	86,000	14%	(582,000)	10%
Net unrecognized tax positions	14,000	0%	(437,000)	(20%)	51,000	(1%)
International taxes	(431,000)	(13%)	(366,000)	(17%)	(389,000)	7%
Deferred rate change	103,000	3%	–	0%	–	0%
Permanent differences	(2,000)	0%	9,000	0%	60,000	(1%)
Other, net	(13,000)	0%	174,000	0%	(80,000)	2%
Valuation allowance change	472,000	14%	(124,000)	2%	5,972,000	(107%)
	$ 1,300,000	40%	$ 57,000	13%	$ 3,170,000	(57%)

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2012 and 2011, are included in other long-term liabilities on the accompanying Consolidated Balance Sheets:

Balance as of December 31, 2010	$ 755,000
Additions based on tax positions related to the current year	–
Additions for tax positions of prior years	88,000
Reductions for tax positions of prior years	–
Settlements or lapse of applicable statutes	(524,000)
Balance as of December 31, 2011	$ 319,000
Additions based on tax positions related to the current year	–
Additions for tax positions of prior years	38,000
Reductions for tax positions of prior years	–
Settlements or lapse of applicable statutes	–
Balance as of December 31, 2012	$ 357,000

The Company's federal tax returns for years 2007 to 2010 were reviewed by the Internal Revenue Service in 2011. The Internal Revenue Service Joint Committee approved the review in 2012 and only minor adjustments to the original returns were made during the exam. State statutes vary, but state income tax returns are generally subject to examination from 2007 forward. The unrecognized benefits of $357,000 as of December 31, 2012, 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 years ended December 31, 2012 and 2011, and was $44,200 for the year ended December 31, 2010.

(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, 2012, the balance outstanding was $7,718,000 under the facility. The Company was in compliance with the borrowing covenant as of December 31, 2012. Total borrowing under the facility was $3,952,000 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.

As of April 16, 2012, the Company entered into an amendment ("Amendment No. 1") to the existing bank borrowing agreement that was signed on September 28, 2011. The amendment restates the defined term "Earnings Before Interest and Taxes," changes the Letter of Credit sub-limit to $5,000,000 from $3,000,000, and increases the capital expenditures limit to $2,000,000 from $1,300,000.

As of January 15, 2013, the Company entered into an amendment ("Amendment No. 2") to the existing bank borrowing agreement that was signed on September 28, 2011. The amendment increases the availability amount by $1,500,000, commencing January 1, 2013, and ending on April 30, 2013, restates the defined term "Earnings Before Interest and Taxes," and deletes various other defined terms related to the Availability Block.

Mueller B.V.'s operating companies have bank borrowing facilities which total $9,240,000. 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, 2012. Total borrowing under the facilities was $7,987,000 as of December 31, 2012. Total borrowing under the facilities was $4,789,000 as of December 31, 2011.

As of February 20, 2013, Mueller B.V. operating companies amended the current bank borrowing facility that was signed on April 19, 2008. Borrowings under the amended facility were increased by 2,000,000 Euros, to an amended total of 9,000,000 Euros. Borrowings are at variable rates of one-month Euribor plus 1.65%. The borrowings are secured by a pledge of receivables, inventory, machinery, and equipment.

As of December 31, 2012, the Companies had notes payable with an outstanding balance of $18,467,000. 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 $15,400,000 as of December 31, 2012, and there is no recourse to Paul Mueller Company from these loans.

	Outstanding Balance 2012	Outstanding Balance 2011	Current Maturities 2012	Current Maturities 2011
Mueller B.V. – Note payable – Acquisition of Paltrok and secured by stock of Paltrok B.V. Notes matures in 2013 with a variable rate of Euribor plus 1.1%. The rate at year-end was 1.76%. Payments are made quarterly	$ –	$ 800,000	$ –	$ 800,000
Note payable – Seller financing of Paltrok acquisition. Interest rate was 0%. Payments made annually from, as defined, cash flows, unsecured	–	1,242,000	–	955,000
Note payable – Seller financing of Paltrok acquisition. Interest rate was 0%. Note matures in 2015. Payments made annually. Unsecured.	5,280,000	4,838,000	1,452,000	645,000
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.	4,290,000	–	660,000	–
MEKO – Note payable secured by tanks leased to dairy farmers. Note matures in 2015 with a fixed rate of 5.3%. Payments are made monthly	3,003,000	5,586,000	982,000	2,829,000
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 .81%. Payments are made quarterly.	517,000	541,000	36,000	35,000
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 .81%. Payments are made quarterly.	2,310,000	2,386,000	132,000	129,000
Notes payable related to Mueller B.V. and subsidiaries	$15,400,000	$15,393,000	$ 3,262,000	5,393,000
Bank – Note payable secured by plant equipment. Note matures in 2016 with a fixed rate of 5.75%. Payments are made annually.	$ 3,067,000	$ 3,867,000	$ 801,000	$ 801,000
Domestic note payable	$ 3,067,000	$ 3,867,000	$ 801,000	$ 801,000
Total notes payable	$18,467,000	$19,260,000	$ 4,063,000	$ 6,194,000

The MEKO note payable ($3,003,000) has a tangible net worth requirement and a limitation on the annual repayment amount of the Seller's loan in the amount of $4,290,000. The Paltrok notes payable ($2,827,000) have a tangible net worth requirement. The domestic bank note payable ($3,066,000) has a minimum tangible net worth requirement. The Companies' were in compliance with the covenants as of December 31, 2012.

The principal payments of the notes payable as of December 31, 2012, and for future years are listed below:

2013	$ 4,063,000
2014	4,063,000
2015	4,063,000
2016	2,472,000
2017	828,000
Thereafter	2,978,000
	$ 18,467,000

(7) Guarantees:

The Company has two standby letter-of-credit facilities of $3,000,000 and $900,000. As of December 31, 2012, there were standby letters of credit totaling $2,043,000 and $900,000, 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 which is included with other accrued expenses on the Consolidated Balance Sheet for the years ended December 31, 2012 and 2011:

	2012	2011
Beginning balance	$ 868,000	$ 1,262,000
Costs incurred to satisfy warranty claims	(1,167,000)	(898,000)
Aggregate warranty reserves made	1,498,000	507,000
Aggregate changes to warranty reserves	(102,000)	(3,000)
Ending balance	$ 1,097,000	$ 868,000

(8) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $2,335,000 and terms exceeding one year. The lease expense for the years ended December 31, 2012, 2011, and 2010, was $1,155,000, $1,182,000, and $1,223,000, respectively. The future minimum lease payments for each of the years subsequent to December 31, 2012, will be:

2013	$ 1,073,000
2014	669,000
2015	401,000
2016	165,000
2017	27,000
Thereafter	0
	$ 2,335,000

(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 and include intersegment eliminations. 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).

2012	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$ 86,354,000	$ 67,999,000	$ 20,772,000	$ 4,436,000	$ –	$ –	$179,561,000
Depreciation & amortization expense	$ 4,191,000	$ 1,289,000	$ 73,000	$ 24,000	$ 622,000	$ –	$ 6,199,000
Income (loss) before income tax	$ 8,595,000	$ (3,445,000)	$ (674,000)	$ 107,000	$ (1,318,000)	$ –	$ 3,265,000
Assets	$ 52,449,000	$ 32,533,000	$ 5,775,000	$ 490,000	$ 10,219,000	$ –	$101,466,000
Additions to property, plant & equipment	$ 2,286,000	$ 1,203,000	$ 14,000	$ 2,000	$ 11,000	$ –	$ 3,516,000

2011	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$ 84,948,000	$ 59,004,000	$ 6,965,000	$ 3,264,000	$ –	$ –	$154,181,000
Depreciation & amortization expense	$ 4,578,000	$ 1,826,000	$ 145,000	$ 64,000	$ 796,000	$ –	$ 7,409,000
Income (loss) before income tax	$ 7,839,000	$ (3,015,000)	$ 816,000	$ (96,000)	$ (3,442,000)	$ –	$ 2,102,000
Assets	$ 48,126,000	$ 31,524,000	$ 1,455,000	$ 543,000	$ 18,944,000	$ –	$100,592,000
Additions to property, plant & equipment	$ 1,278,000	$ 263,000	$ 8,000	$ 50,000	$ 156,000	$ –	$ 1,755,000

2010	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$ 78,277,000	$ 41,680,000	$ 7,092,000	$ 2,584,000	$ –	$ –	$129,633,000
Depreciation & amortization expense	$ 4,695,000	$ 1,816,000	$ 167,000	$ 278,000	$ 1,415,000	$ –	$ 8,371,000
Income (loss) before income tax	$ 4,813,000	$ (10,113,000)	$ 312,000	$ (525,000)	$ (14,000)	$ (51,000)	$ (5,578,000)
Assets	$ 50,781,000	$ 26,614,000	$ 1,298,000	$ 1,976,000	$ 17,725,000	$ –	$ 98,394,000
Additions to property, plant & equipment	$ 851,000	$ 68,000	$ 13,000	$ –	$ 95,000	$ –	$ 1,027,000

Revenues from external customers by product category for the three years ended December 31, 2012, were:

	2012	2011	2010
Milk cooling and storage equipment	$ 86,354,000	$ 84,948,000	$ 78,277,000
Process vessels and tanks	83,729,000	62,022,000	39,219,000
Other industrial equipment	9,478,000	7,211,000	12,137,000
	$ 179,561,000	$ 154,181,000	$ 129,633,000

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, 2012, were:

	2012	2011	2010
United States	$ 105,501,000	$ 80,649,000	$ 55,435,000
North America (excluding the U.S.)	9,467,000	9,718,000	8,667,000
Asia and the Far East	2,957,000	2,370,000	5,740,000
The Netherlands	36,735,000	35,058,000	38,591,000
Other EU countries	21,900,000	24,599,000	17,752,000
Europe (non-EU countries)	1,672,000	278,000	878,000
Other areas	1,329,000	1,509,000	2,570,000
	$ 179,561,000	$ 154,181,000	$ 129,633,000

During 2012, 2011, and 2010, export sales to any one country were not in excess of 10% of consolidated sales.

During 2012, 2011, and 2010, 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, 2012, of $15,582,000 and $33,878,000 were located in the United States and The Netherlands, respectively. Long-lived assets owned by the Company and its subsidiaries as of December 31, 2011, of $16,541,000 and $30,174,000 were located in the United States and The Netherlands, respectively. Long-lived assets owned by the Company and its subsidiaries as of December 31, 2010, of $22,417,000 and $33,767,000 were located in the United States and The Netherlands, respectively.

(10) Long-Term Incentive Plans:

The Company has two stock-based compensation plans: the 2009 Long-Term Incentive Plan ("Employee Plan") and the Non-Employee Director Stock Option and Restricted Stock Plan ("Director Plan"). The Employee Plan has an expiration date of February 12, 2019.

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 2012 or 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, 2012.

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 $115,000, $397,000, and $894,000, for the years ended December 31, 2012, 2011, and 2010, respectively. As of December 31, 2012, 20,533 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, 2012, was $159,000. This amount will be recognized as expense over a weighted average period of three years.

Changes in the Company's restricted stock for the year ended December 31, 2012, were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2011	32,613	$ 49.09
Vested during the period	(7,329)	$ 48.64
Retirements during the period	0	$ 0.00
Forfeited during the period	(4,751)	$ 29.03
Purchased during the period	0	$ 0.00
Nonvested as of December 31, 2012	20,533	$ 53.88

(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, 2012:

	Fair Value Measurements			Assets at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments	$ –	$ 423,000	$ –	$ 423,000
Total	$ –	$ 423,000	$ –	$ 423,000

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

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 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 $3,074,000 and $727,000, 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 market-to-market values as of December 31, 2012, remain in accumulated other comprehensive income (loss) as of the de-designation date and will be reclassified to interest expense. As of December 31, 2012 and 2011, the estimated fair value of the interest rate swaps was a net liability of $423,000 and $413,000, respectively, and was included in other long-term liabilities on the Consolidated Balance Sheets.

(12) Significant Event

The arbitration between the Company and the former CEO Matthew T. Detelich was settled on December 19, 2012. The settlement satisfied all remaining obligations to Mr. Detelich under his employment agreement and supplementary retirement plan. Mr. Detelich remains a participant in the Company's standard defined benefit retirement plan, the Paul Mueller Company Noncontract Employees Retirement Plan. The results were adversely affected by expenses associated with payments to Mr. Detelich of $2,042,000.

(13) Subsequent Events

As reported in the notes to the financial statements, the Company signed Amendment No. 2 to the domestic bank borrowing agreement on January 15, 2013. The Company also signed an amendment to the Mueller B.V., operating companies' bank borrowing agreement on February 20, 2013.

The labor contract with the Sheet Metal Workers, Local 208 (which covers a portion of the employees at our Springfield, Missouri, plant) expired on January 22, 2013. Negotiations with union representatives continue, and employees represented by the union have continued to work under the terms of the expired contract.

The Company is not aware of any other subsequent events that would require recognition or disclosures in the financial statements.

Report of Independent Certified Public Accountants

To the Board of Directors
Paul Mueller Company and Subsidiaries
Springfield, Missouri

Report on the Financial Statements – We have audited the accompanying consolidated financial statements of Paul Mueller Company and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income (loss), comprehensive income (loss), shareholders' investment, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility – Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – The consolidated financial statements of Paul Mueller Company and Subsidiaries for the year ended December 31, 2010, were audited by other auditors whose report, dated June 29, 2011, expressed an unmodified opinion on those statements.

McGladrey LLP

Kansas City Missouri
March 28, 2013

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2012 and 2011

Selected Financial Data – Five-Year Summary

	2012	2011	2010	2009	2008
Net sales	$ 179,561,000	$ 154,181,000	$ 129,633,000	$ 167,519,000	$ 217,882,000
Net income (loss)	$ 1,965,000	$ 2,017,000	$ (8,938,000)	$ (187,000)	$ 3,727,000
Earnings (loss) per common share:					
Basic	$ 1.61	$ 1.68	$ (7.50)	$ (0.16)	$ 3,20
Diluted	$ 1.59	$ 1.64	$ (7.50)	$ (0.16)	$ 3.15
Common shares outstanding	1,239,628	1,252,977	1,291,074	1,266,229	1,245,630
Dividends declared per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.60	$ 2.40
Total assets	$ 101,466,000	$ 100,592,000	$ 102,278,000	$ 115,461,000	$ 152,571,000
Long-term debt	$ 14,404,000	$ 13,066,000	$ 18,177,000	$ 26,992,000	$ 33,763,000
Shareholders' investment	$ (1,465,000)	$ 8,239,000	$ 17,823,000	$ 24,759,000	$ 20,549,000
Working capital	$ (3,605,000)	$ (968,000)	$ (5,050,000)	$ 2,480,000	$ 5,833,000
Book value per common share	$ (1.18)	$ 6.58	$ 13.81	$ 19.55	$ 16.50
Average number of employees	869	783	729	971	1398

Market and Dividend Information by Quarter

	2012				2011			
	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	$ 26.00	$ 29.75	$ 26.20	$ 27.00	$ 22.50	$ 18.85	$ 19.95
Low	$ 16.50	$ 19.80	$ 23.50	$ 19.99	$ 17.00	$ 14.55	$ 14.25	$ 13.50
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 2012 and 2011.

Financial Highlights by Quarter (Unaudited)
For the Years 2012 and 2011
(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2012(a)	2011	2012(a)	2011	2012(a)	2011	2012(b)(c)	2011(b)
Net sales	$ 41,148	$ 30,828	$ 43,490	$ 42,561	$ 46,058	$ 36,814	$ 48,865	$ 43,978
Gross profit	$ 11,915	$ 9,958	$ 12,546	$ 13,826	$ 11,969	$ 12,067	$ 9,684	$ 11,433
Net (loss) income	$ 1,294	$ (257)	$ 1,380	$ (1,201)	$ 852	$ (115)	$ (1,561)	$ 3,590
Earnings (loss) per common share:								
Basic	$1.07	$(0.22)	$1.13	$(1.00)	$0.70	$(0.10)	$(1.28)	$(2.96)
Diluted	$1.07	$(0.22)	$1.13	$(1.00)	$0.70	$(0.10)	$(1.28)	$(2.96)

(a) The results for the first, second, and third quarters of 2012 were adversely affected by severance and non-compete expenses of $185,000, $453,000, and $235,000, respectively. These non-compete and severance expenses related to the employment agreement of the former President and CEO.

(b) The arbitration between the Company and the former CEO Matthew T. Detelich was settled on December 19, 2012. The settlement satisfied all remaining obligations to Mr. Detelich under his employment agreement and supplementary retirement plan. Mr. Detelich remains a participant in the Company's standard defined benefit retirement plan. The results for the three and twelve months ended December 31, 2012, were adversely affected by expenses associated with payments to Mr. Detelich of $1,330,000 and $2,042,000, respectively. The results for the three and twelve months ended December 31, 2011, were adversely affected by expenses associated with payments to Mr. Detelich of $185,000 and $3,813,000, respectively.

(c) No material valuation allowance was recorded in 2012.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

* *** **JOHN J. GHIRARDELLI**
Chairman of the Board
President –
The Killian Group of Companies

** **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

JOHN P. (JACK) STACK
Chairman, President and CEO –
SRC Holdings Corporation

** *** **LEE J. VIOREL, III**
Member –
Lowther Johnson Attorneys at Law, L.L.C.

* ** **MELVIN J. VOLMERT**
Private Investor

* 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

JEREMY W. ROGLES – President
MARCELINO RODRIGUEZ – Secretary
CHRISTINE A. RADER – Controller
DONNA S. STATON – Treasurer

MUELLER FIELD OPERATIONS, INC.

OFFICERS

JEREMY W. ROGLES – President
MARCELINO RODRIGUEZ – Secretary
CHRISTINE A. RADER – Controller
DONNA S. STATON – Treasurer

MUELLER B.V.

MANAGING DIRECTOR

PAUL MUELLER COMPANY

MUELLER

TRANSFER AGENT

COMPUTERSHARE, INC.
250 Royall Street
Canton, MA 02021

Safe Harbor for Forward-Looking Statements

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

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

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

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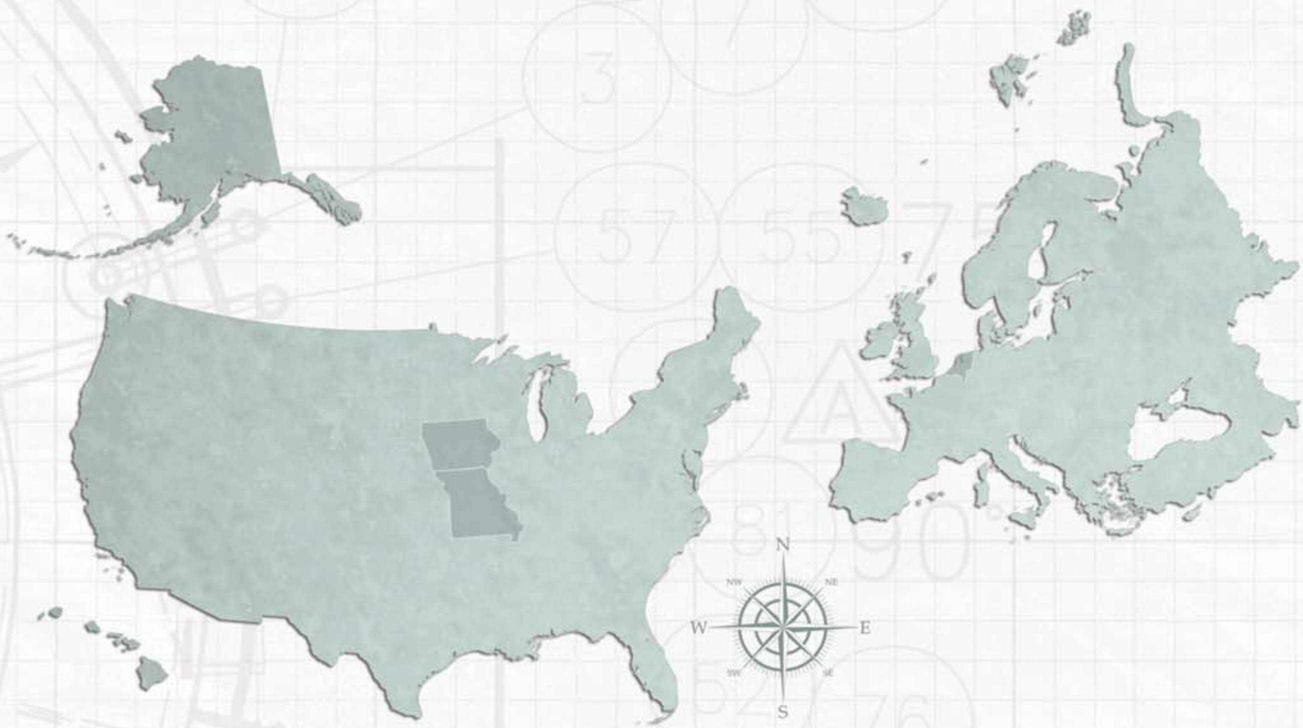
PAUL MUELLER COMPANY

Mueller Iowa Manufacturing Plant
Osceola, Iowa

Corporate Office and Main Manufacturing Plant
Springfield, Missouri

Mueller Warren St. Manufacturing Plant
Springfield, Missouri



Mueller B.V. Service Facility
Wesepe, The Netherlands

Mueller B.V. Sales Office
Assen, The Netherlands

Mueller B.V. Manufacturing Plant
Lichtenvoorde, The Netherlands




MUELLER

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