Paul Mueller Company

2015 Annual Report

A Year of Global Impact

www.paulmueller.com

A Year of Global Impact

CORPORATE PROFILE

Paul Mueller Company, Inc. and Subsidiaries

Mueller Field Operations, Inc.
Mueller Transportation, Inc.
Mueller, B.V. (The Netherlands)

Headquarters:
1600 West Phelps Street, Springfield, Missouri 65802, U.S.A.

Mueller products and services are used in a wide variety of industries, including:

Beer
Beverage
Biotechnology
Chemical
Dairy
Food
Heat Recovery
Heat Transfer
HVAC
Milk Cooling
Oil/Gas
Pharmaceutical
Process Cooling
Pure Water
Refrigeration
Transportation
Water Distillation
Wine

Business Segments

Dairy Farm Equipment
Milk cooling and storage; processing and storage tanks, refrigeration products, and heat recovery equipment.

Industrial Equipment
Standard and customized stainless steel and alloy processing and storage tanks, pure water equipment, heat transfer products, and over-the-road tank trailers.

Field Fabrication
Large field-erected tanks/vessels, equipment installation, process piping, retrofit and/or repair of process systems, and turnkey design and construction of complete processing plants.

Transportation
Delivery of products and components to customers and field fabrication sites, backhauls of material, and contract carriage.

FINANCIAL HIGHLIGHTS

Operating Results for the Year

	2015	2014
Net Sales	$ 178,595,000	$ 200,713,000
Income Before Taxes	$ 12,613,000	$ 10,014,000
Provision for Income Taxes	4,009,000	3,137,000
Net Income	$ 8,604,000	$ 6,877,000
Earnings Per Common Share:		
Basic	$ 6.97	$ 5.60
Diluted	$ 6.95	$ 5.56

Year-End Position

	2015	2014
Total Assets	$ 118,596,000	$ 120,022,000
Working Capital	$ 14,525,000	$ 4,411,000
Current Ratio	1.30	1.08
Shareholders' Investment	$ 31,747,000	$ 24,139,000
Book Value Per Share	$ 25.66	$ 19.51
Common Shares Outstanding	1,237,220	1,237,379
Backlog (Unaudited)	$ 58,385,000	$ 53,953,000

Historic painting of Paul Mueller Company headquarters.

Fellow Shareholders:

Paul Mueller Company's net income was $8.6 million in 2015, up from $6.9 million for the prior year. This strong result was achieved during a challenging year. Revenue was 11% lower compared to the prior year. Half of this decrease was due to translating our Dutch revenue into a stronger dollar, but we did experience lower levels of activity in most product lines except Dairy Farm Equipment. However, earnings were increased by a LIFO benefit of $0.6 million compared to a negative effect of $0.6 million in the prior year, and the successful rebuilding of the field tank which failed in 2014. This project reduced earnings in 2014 by $1.8 million, but contributed $0.3 million to earnings in 2015 due to the tank being rebuilt for less than originally estimated.

As we begin 2016, conditions are more favorable. Backlog increased during the year to $58 million from $54 million. Within that, our dairy farm segment backlog remains strong. In Euros, our Dutch backlog, mostly dairy farm and beer related, has risen. Dairy farm backlog in the U.S. has fallen slightly, but order entry is again exceeding our rate of production. The overall increase in backlog is allowing us to make some operational changes to improve our response to our markets.

As our dairy farm markets remain strong, we have begun a project to increase capacity in the United States. Rather than add personnel in Osceola, we are introducing milk cooler production in Springfield. It is easier to provide variable capacity in Springfield, where we can move people between product lines and the facility is better equipped to produce the larger coolers in our product offering. With this new flexibility, we intend to reduce our lead times below what we traditionally offer and provide our sales force and dealers a new advantage in their selling efforts.

The market for tank trailers, many of which move crude oil, has been negatively impacted by low oil prices and we expect difficult conditions in this market in 2016. We are responding by moving resources to product lines with higher demand. Much of the staff for our new milk cooler production comes from our tank trailer group, allowing our highly trained coworkers to work in one of our strongest markets. Increased backlog in Processing Equipment is also providing the ability for us to move resources to products such as brewery and pharmaceutical equipment. These adjustments, which highlight our flexibility, are being made without any loss of personnel or skills, and we remain capable of serving any of these markets as conditions change.

Reviewing 2015 in more detail, Mueller BV, managed by Wytze Tjepkema, had another strong year. Revenue increased €4.0 million and net income €0.3 million while working on a project to implement the same ERP system as our U.S. operations. Our U.S. dairy farm group, managed by John Hawkins, had another strong year with revenue increasing slightly, but a slightly lower result due to product mix and discounts offered to dealers to introduce new equipment.

Mueller Field Operations, managed by Jeremy Rogles, achieved a pretax result of $0.9 million on lower revenue, but increased backlog by one-third. Mueller Transportation, also managed by Jeremy Rogles, increased its pretax result by $0.2 million while spending aggressively on their trailer fleet. PyroPure, managed by Cary Kapper, increased pretax results by $1.0 million and increased backlog by 27%.

Four of our product lines were affected by lower oil prices, reducing demand for energy recovery and petroleum transportation equipment. Our Tank Trailer group, managed by Mike Mills, reduced its pretax loss by $0.5 million while incurring costs to reduce capacity and move resources to other product lines. Mr. Mills has recently assumed responsibility for our heat transfer product lines, Accu-Therm and Temp-Plate, after the retirement of Duane Shaw. Together, these product lines had a profitable year, but their pretax result fell by $1.5 million as they made significant changes to their manufacturing operations to reduce lead times. They were able to increase backlog by one-third and order entry looks stronger as 2016 begins. Our Component Products group, while still profitable, saw its pretax results fall by $1.3 million on lower revenue from energy related companies and increased depreciation. Recently, Taryn Belcher was selected to manage this group, reporting to Russ Copeland.

The biggest changes in 2015 occurred in Processing Equipment. We have reorganized this group into four product lines more directly focused on their individual markets: Biopharm, managed by John Minor, reporting to Cary Kapper; Food and Dairy, managed by Kyle Garber; Beverage, managed by Jessica Presley; and Chemical, managed by Lori Steinbach, all reporting to Russ Copeland. Under this structure, the groups have begun to operate more effectively, producing nearly the same result despite lower revenue, and growing backlog by nearly 40%.

We are planning for two events in 2016 which are important for our future, but which will have a negative impact on earnings for the year.

First, we will begin repairing the roof over the main building in Springfield. We expect to spend approximately $2 million on the repairs and expense them during the year. If the roof requires more extensive work, we will capitalize the costs instead. In either case, we expect roof repairs and capital expenditures to be less than our recent level of capital expenditures. While this does not represent a large change in spending, if the roof repairs are expensed, they will reduce earnings in 2016.

Second, we are making plans to reduce a portion of our pension risk. The company sponsors two pension plans, which represent obligations of $101 million, as described on page 17 of this report. These plans are closed to new participants and the benefits to current participants are frozen. We intend to offer lump sum settlements, paid from the assets of the plan, to participants who are no longer employed by the company but who have not yet begun receiving their benefit. This allows the plan to save future administrative costs and PBGC premiums. The currently eligible participants represent about a quarter of the obligations of the plan and we expect about 50% of those to elect the settlement. There will be a non-cash reduction of earnings, caused by pension deficits already recorded on the balance sheet, in accumulated other comprehensive income. This will reduce net income by an amount that depends on how many participants elect the settlement. For example, 50% participation of currently eligible participants would reduce earnings by approximately $3.4 million, and 100% participation by approximately $6.7 million.

Finally, we are announcing a share repurchase plan to return up to $3 million to our shareholders. Prior to 2009, our company had a long and consistent history of returning capital to shareholders through a regular quarterly dividend. Since that time, we have reduced our total borrowings from $57 million to $16 million and made significant improvements to the operations of the company, but we still face significant risks, such as those posed by our pension plans. A repurchase plan provides us a way to increase liquidity for our shareholders while preserving the flexibility to meet the risks that we face. We have appreciated your suggestions on this topic and we remain open to discussing the progress of your company with you. I appreciate your support, as do the rest of your managers and our coworkers. We look forward to seeing you at our annual shareholder meeting on May 13, 2016.

David Moore
President and CEO

March 18, 2016

Consolidated Statements of Income for the Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Net Sales	$ 178,595,000	$ 200,713,000	$ 181,257,000
Cost of Sales	126,362,000	147,189,000	126,510,000
Gross profit	52,233,000	53,524,000	54,747,000
Selling, General, and Administrative Expenses	39,035,000	42,616,000	40,662,000
Operating income	13,198,000	10,908,000	14,085,000
Other Income (Expense):			
Interest income	88,000	5,000	35,000
Interest expense	(450,000)	(754,000)	(884,000)
Other, net	(223,000)	(145,000)	(34,000)
Total Other Income (Expense)	(585,000)	(894,000)	(883,000)
Income before provision (benefit) for income taxes	12,613,000	10,014,000	13,202,000
Provision (Benefit) for Income Taxes	4,009,000	3,137,000	(5,691,000)
Net Income	$ 8,604,000	$ 6,877,000	$ 18,893,000
Earnings Per Common Share:			
Basic	$ 6.97	$ 5.60	$ 15.55
Diluted	$ 6.95	$ 5.56	$ 15.45

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

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Net Income	$ 8,604,000	$ 6,877,000	$ 18,893,000
Other Comprehensive Income (Loss), Net of Tax:			
Foreign currency translation adjustment	$ (2,774,000)	$ (3,019,000)	$ 1,006,000
Change in pension liability	1,744,000	(11,531,000)	13,230,000
Amortization of de-designated hedges	26,000	33,000	22,000
Comprehensive Income (Loss)	$ 7,600,000	$ (7,640,000)	$ 33,151,000

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

Consolidated Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	$ 545,000	$ 1,402,000
Accounts receivable, less reserve for doubtful accounts of $811,000 for 2015 and $663,000 for 2014	22,587,000	24,289,000
Costs and estimated earnings in excess of billings	52,000	22,000
Inventories: Raw materials and components	8,017,000	8,747,000
Work-in-process	7,616,000	5,733,000
Finished goods	16,308,000	12,037,000
	31,941,000	26,517,000
Prepayments	7,715,000	8,708,000
Total current assets	62,840,000	60,938,000
Property, Plant, and Equipment:		
Land and land improvements	5,498,000	5,524,000
Buildings	18,026,000	18,432,000
Fabrication equipment	84,028,000	83,911,000
Transportation, office, and other equipment	20,736,000	16,659,000
Construction-in-progress	1,247,000	3,065,000
	129,535,000	127,591,000
Less: Accumulated depreciation	(93,817,000)	(92,945,000)
	35,718,000	34,646,000
Goodwill	11,597,000	12,734,000
Deferred Tax Assets	7,269,000	10,397,000
Other Assets	1,172,000	1,307,000
Total Assets	$ 118,596,000	$ 120,022,000
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 10,478,000	$ 20,113,000
Current maturities of long-term debt	390,000	3,023,000
Accounts payable	11,672,000	10,843,000
Accrued expenses: Payroll and benefits	5,058,000	5,370,000
Vacations	1,451,000	1,556,000
Other	2,591,000	6,064,000
Advance billings	14,117,000	8,952,000
Billings in excess of costs and estimated earnings	2,558,000	606,000
Total current liabilities	48,315,000	56,527,000
Long-Term Pension Liabilities	32,527,000	36,004,000
Long-Term Debt, Less Current Maturities	5,003,000	1,991,000
Other Long-Term Liabilities	1,004,000	1,361,000
Total Liabilities	86,849,000	95,883,000
Commitments and Contingencies		
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,507,481 shares	1,508,000	1,508,000
Paid-in surplus	9,708,000	9,695,000
Retained earnings	63,863,000	55,259,000
	75,079,000	66,462,000
Less: Treasury stock – 270,261 shares for 2015 and 270,102 shares for 2014, at cost	(5,114,000)	(5,109,000)
Accumulated other comprehensive (loss)	(38,218,000)	(37,214,000)
Total Shareholders' Investment	31,747,000	24,139,000
Total Liabilities and Shareholders' Investment	$ 118,596,000	$ 120,022,000

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

Consolidated Statements of Shareholders' Investment (Deficit) for the Years Ended December 31, 2015, 2014, and 2013

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance – 12-31-2012	$ 1,508,000	$ 9,550,000	$29,489,000	$ (5,057,000)	$ (36,955,000)	$ (1,465,000)
Add (Deduct):						
Net income	–	–	18,893,000	–	–	18,893,000
Other comprehensive income, net of tax	–	–	–	–	14,258,000	14,258,000
Treasury stock acquisition	–	–	–	(45,000)	–	(45,000)
Deferred compensation amortization	–	100,000	–	–	–	100,000
Balance – 12-31-2013	1,508,000	9,650,000	48,382,000	(5,102,000)	(22,697,000)	31,741,000
Add (Deduct):						
Net income	–	–	6,877,000	–	–	6,877,000
Other comprehensive (loss), net of tax	–	–	–	–	(14,517,000)	(14,517,000)
Treasury stock acquisition	–	–	–	(7,000)	–	(7,000)
Deferred compensation amortization	–	45,000	–	–	–	45,000
Balance – 12-31-2014	1,508,000	9,695,000	55,259,000	(5,109,000)	(37,214,000)	24,139,000
Add (Deduct):						
Net income	–	–	8,604,000	–	–	8,604,000
Other comprehensive (loss), net of tax	–	–	–	–	(1,004,000)	(1,004,000)
Treasury stock acquisition	–	–	–	(5,000)	–	(5,000)
Deferred compensation amortization	–	13,000	–	–	–	13,000
Balance – 12-31-2015	$ 1,508,000	$ 9,708,000	$ 63,863,000	$ (5,114,000)	$ (38,218,000)	$ 31,747,000

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

Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Cash Flows from Operating Activities:			
Net income	$ 8,604,000	$ 6,877,000	$ 18,893,000
Adjustments to reconcile net income to net cash (required) provided by operating activities:			
Pension contributions (greater) less than expense	(1,734,000)	3,890,000	(550,000)
Bad debt expense	102,000	(57,000)	549,000
Depreciation and amortization	5,665,000	6,009,000	6,276,000
(Gain) loss on sales of equipment	22,000	(17,000)	–
Deferred tax (benefit) expense	2,463,000	1,439,000	2,965,000
Deferred tax valuation allowance – change	(7,000)	(28,000)	(10,039,000)
Other	(84,000)	75,000	72,000
Changes in assets and liabilities, net of effect of acquisitions –			
(Increase) decrease in accounts and notes receivable	(112,000)	(1,681,000)	(3,009,000)
(Increase) decrease in costs and estimated earnings in excess of billings	(30,000)	(6,000)	990,000
(Increase) decrease in inventories	(6,769,000)	(1,775,000)	(2,748,000)
(Increase) decrease in prepayments	868,000	(1,348,000)	(600,000)
(Increase) decrease in other assets	408,000	356,000	338,000
(Increase) decrease in deferred tax assets	905,000	(7,236,000)	108,000
Increase (decrease) in accounts payable	3,466,000	4,697,000	(1,054,000)
Increase (decrease) in other accrued expenses	(5,326,000)	950,000	920,000
Increase (decrease) in advance billings	5,441,000	(1,953,000)	139,000
Increase (decrease) in billings in excess of costs and estimated earnings	1,952,000	(1,538,000)	301,000
Increase (decrease) in long-term liabilities	(156,000)	13,000	(5,000)
Net cash provided by operating activities	15,678,000	8,667,000	13,546,000
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sales of equipment	79,000	55,000	53,000
Additions to property, plant, and equipment	(8,767,000)	(6,983,000)	(6,650,000)
Net cash (required) by investing activities	(8,688,000)	(6,928,000)	(6,597,000)
Cash Flow Provisions (Requirements) from Financing Activities:			
(Repayment) proceeds of short-term borrowings	(8,624,000)	6,605,000	(2,946,000)
Long-term debt proceeds	3,760,000	–	–
Repayment of long-term debt	(3,381,000)	(7,501,000)	(3,694,000)
Treasury stock acquisitions	(5,000)	(7,000)	(45,000)
Other	–	–	22,000
Net cash (required) provided by financing activities	(8,250,000)	(903,000)	(6,663,000)
Effect of Exchange Rate Changes	403,000	387,000	(537,000)
Net (Decrease) Increase in Cash and Cash Equivalents	(857,000)	1,223,000	(251,000)
Cash and Cash Equivalents at Beginning of Year	1,402,000	179,000	430,000
Cash and Cash Equivalents at End of Year	$ 545,000	$ 1,402,000	$ 179,000

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 and its wholly owned subsidiaries: Mueller Transportation, Inc.; Mueller Field Operations, Inc.; and Mueller B.V. and its subsidiaries (collectively "Company"). All significant intercompany balances and transactions have been eliminated in consolidation. The Company provides manufactured equipment and components for the food, dairy, beverage, transportation, chemical, pharmaceutical, and other industries, as well as the dairy farm market. The Company also provides field fabrication, service and repair, and construction services in these industries.

Joint Ventures – As 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 in DEG Engineering GmbH was originally accounted for using the equity method and was included in other assets on the Consolidated Balance Sheets, and the equity in the results was included in equity in income (loss) of joint ventures on the Consolidated Statements of Income. The Company routinely evaluates its equity-method investments for impairment and in 2011 the investment in DEG Engineering GmbH was written down to zero.

Use of Estimates – The preparation of the consolidated 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, 2015 and 2014, were as follows:

	2015	2014
Costs incurred on uncompleted contracts	$ 7,445,000	$ 14,817,000
Estimated earnings (loss)	1,247,000	2,269,000
	$ 8,692,000	$ 17,086,000
Less: Billings to date	11,139,000	17,623,000
	$ (2,447,000)	$ (537,000)

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2015 and 2014, under the following captions were:

	2015	2014
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 52,000	$ 22,000
Income earned not invoiced included in accounts receivable	59,000	47,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,558,000)	(606,000)
	$ (2,447,000)	$ (537,000)

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. As of December 31, 2015, no retainages were included in accounts receivable. Retainages included in accounts receivable as of December 31, 2014, were $117,000.

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 Company's 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.

Included in consolidated accounts receivable as of December 31, 2015 and 2014, are net receivables from DEG Engineering GmbH, a related party, of $1,817,000 and $2,137,000, respectively.

In certain instances, the Company receives advances and progress payments from customers. In such circumstances, an invoice is issued by the Company based upon the terms of the contract, and the effect on the financial statements is to record an account receivable and a liability in advance billings. No revenue is recognized on these transactions. The open accounts receivable related to these invoices are netted with advanced billings at each reporting period. As of December 31, 2015, and 2014, the amounts in advanced billings were $14,117,000 and $8,952,000, 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 inventory.

Under the first-in, first-out ("FIFO") method of accounting, which approximates current cost, Company inventories would have been $9,974,000 and $11,024,000 higher than those reported as of December 31, 2015 and 2014, respectively.

Inventories of Mueller B.V. were $14,549,000 and $12,078,000 as of December 31, 2015 and 2014, 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, 2015 and 2014.

Property, Plant, and Equipment – The Company provides for depreciation expense using principally the double-declining-balance method for new items and the straight-line method for used items. Depreciation expense was $5,398,000, $5,458,000, and $5,669,000 for the years ended December 31, 2015, 2014, and 2013, 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 $382,000 during 2015, $657,000 during 2014, and $523,000 during 2013.

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, 2015 and 2014, there were no impairments.

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

	2015	2014	2013
Net income	$ 8,604,000	$ 6,877,000	$ 18,893,000
Shares for basic earnings per common share –			
Weighted-average shares outstanding	1,235,328	1,228,838	1,215,045
Dilutive effect of restricted stock	1,872	7,554	7,911
Shares for diluted earnings per common share –			
Adjusted weighted-average shares outstanding	1,237,200	1,236,392	1,222,956
Earnings per common share:			
Basic	$ 6.97	$ 5.60	$ 15.55
Diluted	$ 6.95	$ 5.56	$ 15.45

Comprehensive Income (Loss) – The components of other comprehensive income (loss) for the years ended December 31, 2015, 2014, and 2013, were as follows:

	2015	2014	2013
Foreign currency translation adjustment	$ (2,774,000)	$ (3,019,000)	$ 1,006,000
Tax	–	–	–
Foreign currency translation adjustment, net of tax	$ (2,774,000)	$ (3,019,000)	$ 1,006,000
Change in pension liability	$ 2,772,000	$ (18,741,000)	$ 13,230,000
Tax	(1,028,000)	7,210,000	–
Change in pension liability, net of tax	$ 1,744,000	$ (11,531,000)	$ 13,230,000
Amortization on de-designated hedges	$ 26,000	$ 33,000	$ 22,000
Other comprehensive income (loss)	$ (1,004,000)	$ (14,517,000)	$ 14,258,000

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 years ended December 31, 2015, 2014, and 2013, were as follows:

	2015	2014	2013
Interest payments	$ 521,000	$ 789,000	$ 1,062,000
Income tax payments	$ 1,152,000	$ 1,670,000	$ 1,766,000
Non-cash activities related to investing and financing activities:			
Change in equity related to swap position	$ 26,000	$ 33,000	$ 22,000
Note receivable on sale of joint venture	$ –	$ –	$ 87,000

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

	Shares	
	Common	Treasury
Balance – December 31, 2012	1,507,481	267,853
Treasury stock acquisition	–	2,037
Balance – December 31, 2013	1,507,481	269,890
Treasury stock acquisition	–	212
Balance – December 31, 2014	1,507,481	270,102
Treasury stock acquisition	–	159
Balance – December 31, 2015	1,507,481	270,261

Goodwill and Other Intangible Assets – The Company follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350 – "Intangibles—Goodwill and Other," with regards to accounting for goodwill and other intangible 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.

The Company tests goodwill for impairment as of November 30, or more frequently, if events or changes in circumstances indicate that impairment may be present. For reporting units in which this assessment concludes that it is more likely than not that the fair value is more than its carrying value, goodwill is not considered impaired and the Company is not required to perform the two-step quantitative goodwill impairment test. Qualitative factors considered in this assessment include relevant macroeconomic conditions, limitations on accessing capital, significant fluctuations in foreign exchange rates, industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit. For the years ended 2015, 2014, and 2013, the Company assessed qualitative factors in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. Based upon the qualitative assessment, no goodwill impairment charge was required for the years ended December 31, 2015, 2014, or 2013.

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 as of December 31, 2015, 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 FASB 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.

As of December 31, 2015, no provision has been made for U.S. federal deferred income taxes on $26,756,000 of accumulated and undistributed earnings of foreign subsidiaries since it is the intention of management to indefinitely reinvest the undistributed earnings in those foreign subsidiaries at the U.S. level. The determination of unrecognized deferred tax liability related to these temporary differences is not practicable.

Derivatives – The Company uses derivative financial instruments (which consist of interest rate swaps) to assist in its interest rate risk management. All derivatives are measured and reported at fair value on the Company's consolidated balance sheet as other assets or other liabilities. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. As of December 31, 2015, the Company had one cash flow hedging relationship, which was a derivative to hedge the exposure to variability in expected future cash flows. To qualify for hedge accounting, the Company must comply with the detailed rules and documentation requirements at the inception of the hedge, and hedge effectiveness is assessed at inception and on a quarterly basis throughout the life of each hedging relationship. Hedge ineffectiveness, if any, is measured periodically throughout the life of the hedging relationship. The Company does not use derivatives for trading or speculative purposes. The Company did not designate the derivative as a cash flow hedge. As a result, all gains and losses from the changes in the derivative fair value is recognized immediately in earnings.

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

Recent Accounting Pronouncements – In May 2014, the FASB issued ASU 2014-09 – "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard permits the use of either the retrospective or cumulative effect transition method. The guidance is effective for public companies for interim and annual periods beginning after December 15, 2017. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method and has not determined the effect of the standard on ongoing financial reporting.

In April 2015, the FASB issued ASU 2015-03, Interest – "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. This ASU will be effective for the Company for fiscal years beginning after December 15, 2015. Early adoption is permitted, and retrospective application is required. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In July 2015, the FASB issued ASU 2015-11 – "Inventory (Topic 330): Simplifying the Measurement of Inventory." The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, on a prospective basis. This ASU will be effective for the Company for fiscal years beginning after December 15, 2016. Early adoption of ASU 2015-11 is permitted. The Company is currently evaluating the effects adoption of this guidance will have on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17 – "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." This ASU simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 – "Leases (Topic 842)." The objective of ASU 2016-02 is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Early adoption of ASU 2016-02 is permitted. The Company is currently evaluating the impact of adopting ASU 2016-02.

(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, 2015, 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, 2015 and 2014, 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, 2013	$ 158,000	$ 1,225,000	$ 1,383,000
Amortization 2014	(156,000)	(350,000)	(506,000)
Foreign currency fluctuation	(2,000)	(118,000)	(120,000)
Balance as of December 31, 2014	$ –	$ 757,000	$ 757,000
Amortization 2015	–	(253,000)	(253,000)
Foreign currency fluctuation	–	(35,000)	(35,000)
Balance as of December 31, 2015	$ –	$ 469,000	$ 469,000

Average amortization periods for brand names and customer relationships are six and nine years, respectively. Aggregate amortization of intangible assets was $254,000, $506,000, and $507,000 for the years ended December 31, 2015, 2014, and 2013, respectively. Estimated aggregate amortization for the next two years as follows:

2016	$ 249,000
2017	220,000
	$ 469,000

The changes in the carrying amount of goodwill for the years ended December 31, 2015, 2014, and 2013, were as follows:

Balance as of December 31, 2012	$ 13,610,000
Foreign currency fluctuation	523,000
Balance as of December 31, 2013	$ 14,133,000
Foreign currency fluctuation	(1,399,000)
Balance as of December 31, 2014	$ 12,734,000
Foreign currency fluctuation	(1,137,000)
Balance as of December 31, 2015	$ 11,597,000

(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 401(k) plan were $834,000 for 2015, $794,000 for 2014, and $700,000 for 2013.

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 pension 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. 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 30, 2011, there will be no further accrual of benefits for participants under the pension plan for employees represented by the bargaining unit.

The Company also contributes to a union sponsored multi-employer benefit plan for certain domestic employees. Benefits under this multi-employer plan are generally based on compensation levels and years of service. For the Company, the financial risks of participating in a multi-employer plan are different from single-employer plans in the following respects:

Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer discontinues contributions to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If a participating employer chooses to stop participating in a plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

Under federal legislation regarding multi-employer pension plans, in the event of a withdrawal from a plan or plan termination, companies are required to continue funding their proportionate share of such plan's unfunded vested benefits. We are a participant in a union sponsored multi-employer plan, and, as a plan participant, our potential obligation could be significant. The amount of the potential obligation is not currently ascertainable because the information required to determine such amount is not identifiable or readily available.

Our participation in the plan for the year ended December 31, 2015, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three digit plan number. The zone status is based on the latest information that the Company received from the plan and is certified by the plan's actuary. Plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are generally less than 80 percent funded, and plans in the green zone are generally at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The "Surcharge Imposed" column includes plans in a red zone status that require a payment of a surcharge in excess of regular contributions. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Consolidated	Company Contributions			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2015	2014		2015	2014	2013		
Boilermaker-Blacksmith National Pension Trust	48-6168020/001	Yellow	Yellow	Yes	$ 436,552	$ 669,672	$ 490,643	No	Described Below[(1)]

(1) Our collective bargaining agreement with the Boilermaker-Blacksmith National Pension Trust is under a National Maintenance Agreement, which is evergreen in terms of expiration. However, the agreement allows for termination of the collective bargaining agreement by either party with a predetermined written notice.

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 $1,513,000 for 2015, $1,483,000 for 2014, and $1,293,000 for 2013.

Total domestic pension expense under the plans was $1,255,000 for 2015, $833,000 for 2014, and $1,011,000 for 2013. The required minimum contributions to be made in 2016 are estimated to be $1,877,000. 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:

	2015	2014
Change in projected benefit obligation –		
Benefit obligation as of beginning of year	$ 109,616,000	$ 91,646,000
Service cost	–	–
Interest cost	4,735,000	4,771,000
Curtailments	–	–
Settlements	–	–
Actuarial (gain) loss	(8,360,000)	17,666,000
Benefits paid and expenses	(4,534,000)	(4,467,000)
Benefit obligation as of end of year	$ 101,457,000	$ 109,616,000
Change in plan assets –		
Fair value of plan assets as of beginning of year	$ 73,612,000	$ 71,062,000
Actual return on plan assets	(2,108,000)	2,864,000
Employer contributions	1,960,000	4,153,000
Benefits paid and expenses	(4,534,000)	(4,467,000)
Fair value of plan assets as of end of year	$ 68,930,000	$ 73,612,000
Funded status	$ (32,527,000)	$ (36,004,000)
Less amount included in accrued expenses	$ –	$ –
Funded status as of end of year	$ (32,527,000)	$ (36,004,000)

Components of pension expense for the three years were:

	2015	2014	2013
Interest cost	$ 4,735,000	$ 4,771,000	$ 4,411,000
Expected return on plan assets	(4,889,000)	(4,799,000)	(4,701,000)
Amortization of prior service cost	1,409,000	861,000	1,301,000
Net periodic pension expense	$ 1,255,000	$ 833,000	$ 1,011,000

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

	2015	2014
Projected benefit obligations	$ 101,457,000	$ 109,616,000
Accumulated benefit obligations	$ 101,457,000	$ 109,616,000
Fair value of plan assets	$ 68,930,000	$ 73,612,000

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

	2015	2014
Discount rate	4.86%	4.42%
Rate of compensation increase	N/A	N/A

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

	2015	2014	2013
Discount rate	4.42%	5.34%	4.48%
Expected long-term return on plan assets	6.78%	6.78%	7.25%
Rate of compensation increase	N/A	N/A	N/A

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. The discount rate used to determine pension expense decreased from 5.34% for 2014 to 4.42% for 2015. The effect of the rate decrease was to increase pension expense by $12,000 for 2015. 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 6.78% for 2015 and 6.78% for 2014.

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:

	2015	2014
Asset category:		
Equities	61%	61%
Fixed income	38%	38%
Other	1%	1%
	100%	100%

The long-term asset allocation on average will approximate 61% in equities and 39% in fixed income securities. 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, 2015 and 2014:

Asset Category	Fair Value at 12-31-15	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 765,000	$ 765,000[a]	$ –	$ –
Equity securities	42,195,000	42,195,000[b]	–	–
Fixed income securities	25,970,000	– [c]	25,970,000[c]	–
Total plan assets	$ 68,930,000	$ 42,960,000	$ 25,970,000	$ –

Asset Category	Fair Value at 12-31-14	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 829,000	$ 829,000[a]	$ –	$ –
Equity securities	45,137,000	45,137,000[b]	–	–
Fixed income securities	27,646,000	– [c]	27,646,000[c]	–
Total plan assets	$ 73,612,000	$ 45,966,000	$ 27,646,000	$ –

(a) The assets consist primarily of institutional money market mutual funds.

(b) The assets consist primarily of ETFs and institutional mutual funds which hold domestic and international equities.

(c) The assets consist primarily of fixed income investments in pooled separate accounts and institutional mutual funds which include issues of the U.S. government and its agencies and high quality corporate issues.

Assets in the general account, valued using significant unobservable inputs (Level 3), were transferred to fixed income securities (Level 2) in 2014. Significant unobservable inputs (Level 3) as of December 31, 2015, was zero.

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

2016	$ 4,952,000
2017	5,136,000
2018	5,240,000
2019	5,542,000
2020	5,764,000
2021 through 2025	30,907,000
	$ 57,541,000

Included in accumulated other comprehensive loss as of December 31, 2015, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $47,593,000 ($29,270,000, net of tax). Included in accumulated other comprehensive loss as of December 31, 2014, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $50,365,000 ($30,975,000, net of tax). Included in accumulated other comprehensive loss as of December 31, 2013, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $31,624,000 ($19,449,000, 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, 2016, is $1,397,000.

(5) Income Taxes:

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

	2015	2014	2013
Current tax expense	$ 1,554,000	$ 1,726,000	$ 1,383,000
Deferred, net	2,463,000	1,439,000	2,965,000
Valuation allowance – change	(7,000)	(28,000)	(10,039,000)
	$ 4,010,000	$ 3,137,000	$ (5,691,000)

Prior to 2013, the Company established a valuation allowance for a portion of domestic deferred tax assets primarily related to the pension liability which was recorded through Other Comprehensive Income. The valuation allowance was recorded due to domestic cumulative losses and the Company's conclusion that it was not more likely than not that certain deferred tax assets would be realized. As of December 31, 2013, U.S. operations returned to a position of cumulative profits for the most recent three-year period. The Company concluded that this record of cumulative profitability in recent years, and the business plan projecting continued profitability, provided assurance that our deferred tax assets more likely than not will be realized. Accordingly, at December 31, 2013, the Company released the valuation allowance against net deferred tax assets, except for a capital loss carryforward, for entities in the United States, resulting in a $10,120,000 tax benefit recorded in 2013. Since that time the Company has continued to be profitable.

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, 2015 and 2014, is shown below:

	2015	2014
Deferred tax assets:		
Worker's compensation	$ 198,000	$ 223,000
Vacation	447,000	506,000
Warranty	99,000	127,000
Doubtful accounts	191,000	168,000
Pensions	11,820,000	13,537,000
Inventory	287,000	281,000
Tax attribute carryforward	2,413,000	2,393,000
Other	700,000	2,238,000
	$ 16,155,000	$ 19,473,000
Valuation allowance	–	(7,000)
	$ 16,155,000	$ 19,466,000
Deferred tax liabilities:		
Intangibles	(1,009,000)	(1,093,000)
Property, plant, and equipment	(2,622,000)	(2,721,000)
Net deferred tax assets	$ 12,524,000	$ 15,652,000

As of December 31, 2015, net current deferred tax assets were $5,255,000; net noncurrent deferred tax assets were $10,900,000; and net noncurrent deferred tax liabilities were $3,631,000. As of December 31, 2014, net current deferred tax assets were $5,255,000; net noncurrent deferred tax assets were $12,409,000; and net noncurrent deferred tax liabilities were $2,012,000, the total of which included a valuation allowance of $7,000. 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, 2015 and 2014, were $3,000 and $88,000 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, 2015, the tax effected deferred tax assets included $365,000 related to state net operating losses and $679,000 related to federal net operating losses, which expire between the years 2016 and 2034. Tax credits as of December 31, 2015, of $1,082,000 are included in deferred tax assets and expire between the years 2030 and 2035.

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, 2015, follows:

	2015	Rates	2014	Rates	2013	Rates
Statutory federal income tax expense	$ 4,289,000	34%	$ 3,405,000	34%	$ 4,490,000	34%
Increase (decrease) in taxes resulting from:						
Tax credits	(824,000)	(6.53%)	(40,000)	(.40%)	–	0%
State tax, net of federal benefit	238,000	1.89%	168,000	1.68%	447,000	3.38%
Net unrecognized tax positions	14,000	.11%	8,000	.08%	8,000	.06%
International taxes	(498,000)	(3.95%)	(545,000)	(5.44%)	(438,000)	(3.32%)
Deferred rate change	599,000	4.75%	143,000	1.43%	(177,000)	(1.34%)
Permanent differences	51,000	.40%	63,000	.62%	(34,000)	(.26%)
Other, net	148,000	1.17%	(37,000)	(.37%)	133,000	1.03%
Valuation allowance change	(7,000)	(.05%)	(28,000)	(.28%)	(10,120,000)	(76.64%)
	$ 4,010,000	31.79%	$ 3,137,000	31.32%	$ (5,691,000)	(43.09%)

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2015 and 2014, are included in other long-term liabilities on the accompanying Consolidated Balance Sheets:

Balance as of December 31, 2013	$ 346,000
Additions for tax positions of prior years	14,000
Balance as of December 31, 2014	360,000
Additions based on tax positions related to the current year	75,000
Additions for tax positions of prior years	225,000
Balance as of December 31, 2015	$ 660,000

The unrecognized benefits of $660,000 as of December 31, 2015, 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, 2015 and 2014. With few exceptions, the Company is no longer subject to income tax examination by the United States federal, state, or local tax authorities for years before 2012.

(6) Borrowings:

In 2014, the Company entered into a new domestic bank borrowing facility of $15,000,000. On February 25, 2016, the Company amended the domestic bank borrowing facility agreement to extend the agreement until February 28, 2019, and added an additional financial leverage covenant of Total Debt to EBITDA which shall not exceed 3 to 1 at the end of each quarter for the trailing twelve months.

Borrowings under the facility incur interest at the 30-day LIBOR Daily Floating Rate plus 1.15% as defined, and are secured by domestic accounts receivable and inventory. The rate at December 31, 2015, was 1.57%. As of December 31, 2015, the balance outstanding was $4,611,000 under the facility.

The Company was in compliance with the borrowing covenant as of December 31, 2015.

The Company's previous domestic bank borrowing facility of $20,000,000, as amended, was set to expire on September 27, 2014, and was extended until November 28, 2014. This facility was paid off on November 28, 2014, when the new facility was arranged. Borrowings under this facility incurred interest at the 30-day LIBOR Daily Floating Rate plus 2.5% as defined, and were secured by domestic accounts receivable and inventory.

Mueller B.V.'s operating companies have bank borrowing facilities which total $9,810,000. Borrowings under the facilities are at variable rates of one-month Euribor plus 1.45%. The borrowings are secured by a pledge of receivables and inventory and have a limit on capital expenditures and minimum tangible net worth requirements. The companies were in compliance with the covenants as of December 31, 2015. Total borrowing under the facilities was $5,867,000 as of December 31, 2015, and $9,484,000 as of December 31, 2014.

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, to an amended total of €9,000,000. Borrowings are at variable rates of one-month Euribor plus 1.55%. The borrowings are secured by a pledge of receivables, inventory, machinery, and equipment.

As of December 31, 2015, the Company had long-term notes payable with an outstanding balance of $5,393,000. 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.

	Outstanding Balance 2015	Outstanding Balance 2014	Current Maturities 2015	Current Maturities 2014
Note payable – Intercompany loan from parent company. Note matures in 2019 with a variable rate of 30-day LIBOR plus 2.5%. Unsecured. Payments are made annually.	$ 4,633,000	$ 2,745,000	$ 545,000	$ 610,000
Note payable – Seller financing of Paltrok acquisition. Note matures in 2015. Interest rate was 0%. Unsecured. Payments are made annually.	–	1,952,000	–	1,952,000
Note payable secured by tanks leased to dairy farmers. Note matures in 2015 with a fixed rate of 5.3%. Payments are made monthly.	–	915,000	–	915,000
Note payable secured by equipment and certain assets. Note matures in 2027 with a variable rate of Euribor plus .7%. The rate at year-end was .81%. Payments are made quarterly.	307,000	377,000	30,000	34,000
Mortgage loan secured by land and buildings. Note matures in 2030 with a variable rate of Euribor plus .7%. The rate at year-end was .81%. Payments are made quarterly.	1,472,000	1,769,000	109,000	122,000
Notes payable related to Mueller B.V. and subsidiaries	6,412,000	7,758,000	684,000	3,633,000
Domestic notes payable secured by land, buildings, and equipment. Note matures in 2020 with a variable rate of 30-day LIBOR plus 1.5%. The rate at year-end was 1.85%. Payments are made monthly.	3,614,000	–	251,000	–
Elimination of intercompany loans	(4,633,000)	(2,744,000)	(545,000)	(610,000)
Total notes payable	$ 5,393,000	$ 5,014,000	$ 390,000	$ 3,023,000

The principal payments of the notes payable as of December 31, 2015, and for future years are listed below:

2016	$ 390,000
2017	390,000
2018	390,000
2019	390,000
2020	2,749,000
Thereafter	1,084,000
	$ 5,393,000

(7) Guarantees:

The Company has two standby letter-of-credit facilities of $5,000,000 and $2,549,000. As of December 31, 2015, there were standby letters of credit totaling $984,000 and $2,549,000, respectively, issued under these facilities, which will expire within one to two years.

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 Sheets for the years ended December 31, 2015 and 2014:

	2015	2014
Beginning balance	$ 1,537,000	$ 1,071,000
Costs incurred to satisfy warranty claims	(1,189,000)	(823,000)
Aggregate warranty reserves made	914,000	1,379,000
Aggregate changes to warranty reserves	(234,000)	(90,000)
Ending balance	$ 1,028,000	$ 1,537,000

(8) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $2,536,000 and terms exceeding one year. The lease expense for the years ended December 31, 2015, 2014, and 2013, was $1,132,000, $1,099,000, and $1,272,000, respectively. The future minimum lease payments for each of the years subsequent to December 31, 2015, will be:

2016	$ 866,000
2017	717,000
2018	560,000
2019	365,000
2020	28,000
	$ 2,536,000

(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 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. 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 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. The Other/Corporate classification includes other revenues, unallocated corporate assets and expenses, and corporate other income (expense).

	2015					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 84,273,000	$ 81,813,000	$ 9,531,000	$ 2,978,000	$ –	$178,595,000
Depreciation and amortization expense	$ 2,969,000	$ 2,214,000	$ 36,000	$ 67,000	$ 379,000	$ 5,665,000
Income (loss) before income tax	$ 10,158,000	$ (1,937,000)	$ 905,000	$ 258,000	$ 3,229,000	$ 12,613,000
Assets	$ 59,874,000	$ 37,440,000	$ 2,777,000	$ 388,000	$ 18,117,000	$118,596,000
Additions to property, plant, and equipment	$ 4,953,000	$ 4,078,000	$ (338,000)	$ 30,000	$ 44,000	$ 8,767,000

	2014					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 91,467,000	$ 91,021,000	$ 15,015,000	$ 3,210,000	$ –	$200,713,000
Depreciation and amortization expense	$ 4,183,000	$ 1,285,000	$ 23,000	$ 97,000	$ 421,000	$ 6,009,000
Income (loss) before income tax	$ 11,041,000	$ (652,000)	$ (1,468,000)	$ 49,000	$ 1,044,000	$ 10,014,000
Assets	$ 61,089,000	$ 31,984,000	$ 3,279,000	$ 486,000	$ 23,184,000	$120,022,000
Additions to property, plant, and equipment	$ 4,486,000	$ 2,029,000	$ 425,000	$ 18,000	$ 25,000	$ 6,983,000

	2013					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 72,897,000	$ 91,596,000	$ 13,115,000	$ 3,649,000	$ –	$181,257,000
Depreciation and amortization expense	$ 4,118,000	$ 1,483,000	$ 27,000	$ 119,000	$ 529,000	$ 6,276,000
Income (loss) before income tax	$ 7,471,000	$ 1,881,000	$ 1,034,000	$ (41,000)	$ 2,857,000	$ 13,202,000
Assets	$ 56,885,000	$ 37,380,000	$ 3,136,000	$ 634,000	$ 16,236,000	$114,271,000
Additions to property, plant, and equipment	$ 4,572,000	$ 1,714,000	$ 26,000	$ 328,000	$ 10,000	$ 6,650,000

Revenues from external customers by product category for the three years ended December 31, 2015, were:

	2015	2014	2013
Milk cooling and storage equipment	$ 83,874,000	$ 90,920,000	$ 72,897,000
Process vessels and tanks	81,795,000	97,222,000	91,596,000
Other industrial equipment	12,926,000	12,571,000	16,764,000
	$ 178,595,000	$ 200,713,000	$ 181,257,000

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, 2015, were:

	2015	2014	2013
United States	$ 98,826,000	$ 113,550,000	$ 99,274,000
North America (excluding the U.S.)	8,768,000	9,026,000	11,173,000
Asia and the Far East	5,479,000	2,511,000	6,001,000
The Netherlands	39,551,000	43,307,000	36,762,000
Other EU countries	23,746,000	26,588,000	24,896,000
Other areas	2,225,000	5,731,000	3,151,000
	$ 178,595,000	$ 200,713,000	$ 181,257,000

During 2015, 2014, and 2013, export sales to any one country were not in excess of 10% of consolidated sales.

During 2015, 2014, and 2013, sales to any one customer were not in excess of 10% of consolidated sales.

Long-lived assets owned by the Company for the three years ended December 31, 2015, were:

	2015	2014	2013
North America	$ 16,052,000	$ 14,842,000	$ 14,590,000
Asia and the Far East	2,421,000	2,523,000	2,017,000
The Netherlands	29,311,000	30,772,000	34,640,000
	$ 47,784,000	$ 48,137,000	$ 51,247,000

(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 2015, 2014, and 2013.

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 vested in May 2015.

No stock options are outstanding as of December 31, 2015.

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 $13,000, $45,000, and $100,000, for the years ended December 31, 2015, 2014, and 2013, respectively. As of December 31, 2015, zero 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, 2015, was zero.

Changes in the Company's restricted stock for the year ended December 31, 2015, were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2014	7,727	$ 26.00
Vested during the period	(7,727)	$ 26.00
Retirements during the period	–	$ –
Forfeited during the period	–	$ –
Purchased during the period	–	$ –
Nonvested as of December 31, 2015	–	$ –

(11) Fair Value Measurements:

On January 1, 2008, the Company adopted FASB ASC 820 – "Fair Value Measurements and Disclosures," the authoritative guidance issued by the FASB on fair-value measurements. In May 2011, the FASB issued ASU 2011-04 – "Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" and in October 2012, the FASB issued ASU 2012-04 – "Technical Corrections and Improvements." These updates include clarifications and changes to fair value guidance and provide a consistent definition of fair value between U.S. GAAP and IFRS. The Company adopted ASU 2011-04 on January 1, 2012, and ASU 2012-04 on January 1, 2013. The codification and subsequent updates define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand 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, 2015:

	Fair Value Measurements			Liabilities at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments	$ –	$ 107,000	$ –	$ 107,000
Total	$ –	$ 107,000	$ –	$ 107,000

The following table presents fair value measurements as of December 31, 2014:

	Fair Value Measurements			Liabilities at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments	$ –	$ 212,000	$ –	$ 212,000
Total	$ –	$ 212,000	$ –	$ 212,000

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, 2015, remain in accumulated other comprehensive income (loss) as of the de-designation date. As of December 31, 2015 and 2014, the estimated fair value of the interest rate swaps was a net liability of $107,000 and $212,000, respectively, and was included in other long-term liabilities on the Consolidated Balance Sheets.

(12) Subsequent Events

Management has evaluated subsequent events through March 18, 2016, the date the financial statements were available to be issued.

As reported in the notes to the financial statements, the Company amended the domestic bank borrowing agreement on February 25, 2016.

On March 18, 2016, the Company announced their intent to offer voluntary one-time lump-sum payments to former employees who have not yet begun drawing a benefit from one of the pension plans covering employees who are represented by a bargaining unit and employees who are not represented by a bargaining unit. Those eligible to receive the voluntary offer are any participants in the plans who are no longer employed by the Company by May 6, 2016, and have not yet begun drawing a benefit from the plan. The lump sum payments will be distributed on or about October 1, 2016.

On March 18, 2016, the Company announced a repurchase program of up to $3 million of the Company's common stock. The stock repurchases may be made from time to time in the open market, in compliance with a Rule 10b5-1 share repurchase plan adopted by the Company, or in privately negotiated transactions in compliance with applicable state and federal securities laws. The timing and amounts of any repurchases will be based on market conditions and other factors including price, regulatory requirements, and capital availability. The program does not require the repurchase of any minimum number of shares and may be suspended, modified, or discontinued at any time, without prior notice.

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Safe Harbor for Forward-Looking Statements

The President's message on pages 7 and 8 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 Company's 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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RSM

Independent Auditor's Report

RSM US LLP

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, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), shareholders' investment (deficit) and cash flows for the years ended December 31, 2015, 2014, and 2013, and the related notes to the consolidated 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, 2015 and 2014, and the results of its operations and its cash flows for the years ended December 31, 2015, 2014, and 2013 in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City Missouri
March 18, 2016

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Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter for the Years 2015 and 2014

Selected Financial Data – Five-Year Summary

	2015	2014	2013	2012	2011
Net sales	$ 178,595,000	$ 200,713,000	$ 181,257,000	$ 179,561,000	$ 154,181,000
Net income (loss)	$ 8,604,000	6,877,000	$ 18,893,000	$ 1,965,000	$ 2,017,000
Earnings (loss) per common share:					
Basic	$ 6.97	$ 5.60	$ 15.55	$ 1.61	$ 1.68
Diluted	$ 6.95	$ 5.56	$ 15.45	$ 1.59	$ 1.64
Common shares outstanding	1,237,220	1,237,379	1,237,591	1,239,628	1,252,977
Total assets	$ 118,596,000	$ 120,022,000	$ 114,271,000	$ 101,466,000	$ 100,592,000
Long-term debt	$ 5,003,000	$ 1,991,000	$ 8,776,000	$ 14,404,000	$ 13,066,000
Shareholders' investment (deficit)	$ 31,747,000	$ 24,139,000	$ 31,741,000	$ (1,465,000)	$ 8,239,000
Working capital	$ 14,525,000	$ 4,411,000	$ 5,615,000	$ (3,605,000)	$ (968,000)
Book value per common share	$ 25.66	$ 19.51	$ 25.65	$ (1.18)	$ 6.58
Average number of employees	954	976	929	869	783

Market Information by Quarter

	2015				2014			
	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	$ 48.99	$ 34.00	$ 36.00	$ 30.01	$ 43.00	$ 47.50	$ 54.00	$ 50.00
Low	$ 30.00	$ 30.01	$ 29.50	$ 25.35	$ 30.06	$ 35.63	$ 39.75	$ 43.51

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 2015 and 2014.

Financial Highlights by Quarter (Unaudited) for the Years 2015 and 2014 (In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2015	2014	2015	2014	2015	2014	2015	2014
Net sales	$ 44,643	$ 46,012	$ 49,710	$ 52,826	$ 40,102	$ 51,320	$ 44,140	$ 50,555
Gross profit	$ 12,202	$ 12,329	$ 15,018	$ 16,130	$ 12,969	$ 11,795	$ 12,044	$ 13,270
Net income	$ 1,606	$ 1,242	$ 3,027	$ 3,348	$ 2,293	$ 1,301	$ 1,678	$ 986
Earnings per common share:								
Basic	$ 1.31	$ 1.01	$ 2.45	$ 2.72	$ 1.85	$ 1.06	$ 1.36	$ .80
Diluted	$ 1.30	$ 1.01	$ 2.45	$ 2.71	$ 1.85	$ 1.05	$ 1.36	$ .80

SHAREHOLDER INFORMATION

Board of Directors

** **CURTIS L. DINAN**
Senior Vice President, Chief Financial Officer, and Treasurer – ONE Gas, Inc.

* ** *** **JOHN J. GHIRARDELLI**
Chairman of the Board
Chairman of Tech Spa Inc.
CEO – Killian Digital

* **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.

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

OFFICERS

DAVID T. MOORE
President and CEO

KENNETH E. JEFFRIES
Chief Financial Officer

DENISE M. SILVEY
Secretary

Subsidiaries

MUELLER FIELD OPERATIONS, INC.

OFFICERS

JEREMY W. ROGLES – President
KENNETH E. JEFFRIES – Vice President
MICHAEL R. PAYNE – Secretary
PATRICIA K. WEBSTER – Treasurer

MUELLER TRANSPORTATION, INC.

OFFICERS

JEREMY W. ROGLES – President
KENNETH E. JEFFRIES – Controller
MICHAEL R. PAYNE – Secretary
PATRICIA K. WEBSTER – Treasurer

MUELLER B.V.

MANAGING DIRECTOR

PAUL MUELLER COMPANY

MUELLER

TRANSFER AGENT

COMPUTERSHARE, INC.
250 Royall Street
Canton, MA 02021

Thank you for your interest
in Paul Mueller Company
and your support
over the years.

Our Locations

Springfield, Missouri

Osceola, Iowa

Lichtenv

oorde, NL

Wesepe, NL

Assen, NL





MUELLER

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