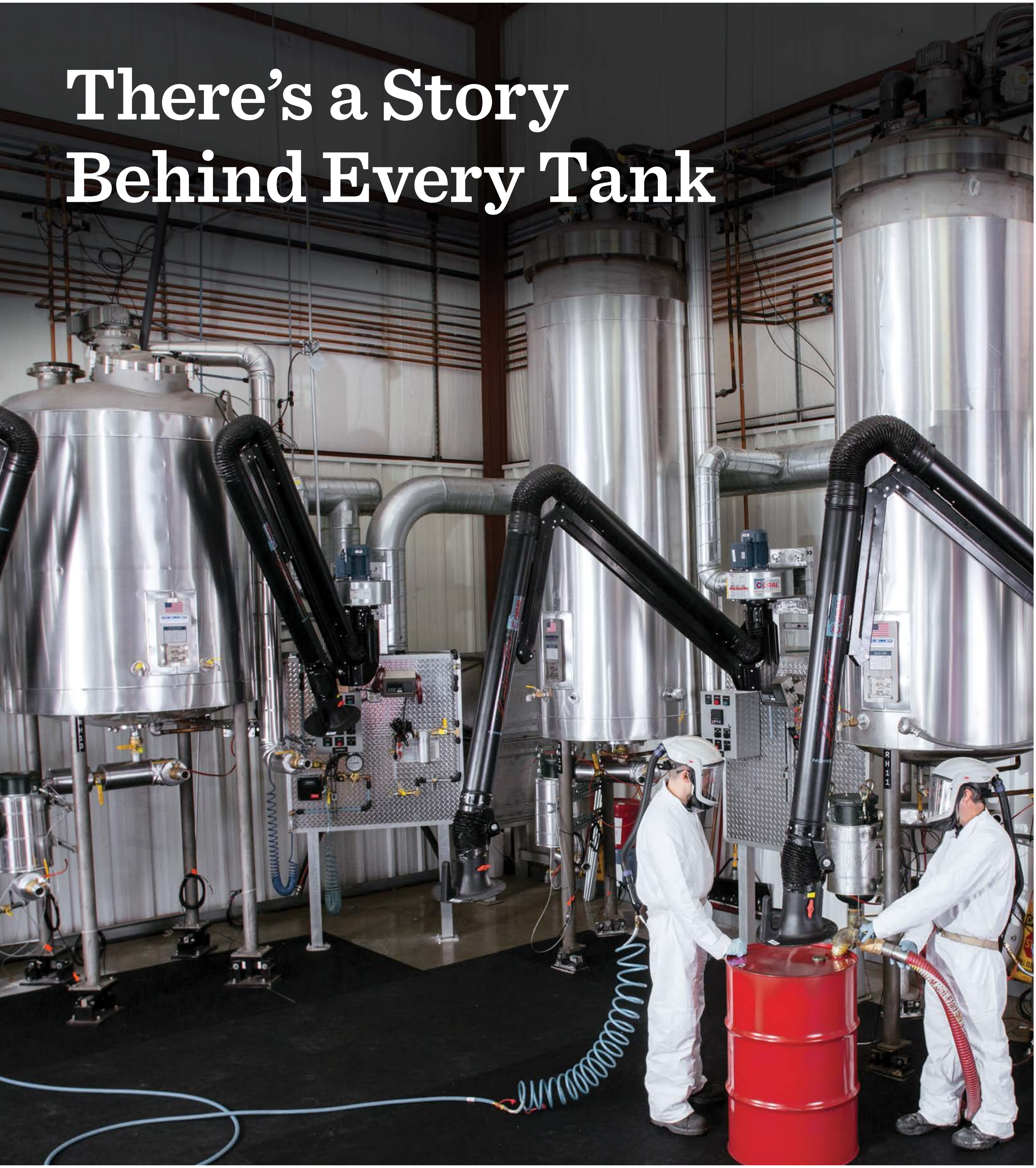
There's a Story Behind Every Tank



2016 PAUL MUELLER COMPANY ANNUAL REPORT

MUELLER

Five Customer Stories

ON THE COVER

A Chemical Mixing Mystery

We think you will enjoy this story from our Chemical group. It is not everyday our employees solve a big mystery with $50, but when we do it is a team effort.

Special thanks to our customer, Chemline, for trusting us with their story and profitability.

Page 37

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, such as:

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

Business Segments

Dairy Farm Equipment: Milk cooling and storage, refrigeration products, and heat recovery equipment.

Industrial Equipment: Standard and customized stainless steel and alloy processing and storage tanks, pure water equipment, and heat transfer products.

Field Fabrication: Large field-erected tanks/vessels, equipment installation, process piping, retrofit and/or repair of process systems, 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.

Moving a Beauty

It took some innovative thinking and serious precision to get this showpiece built and shipped to a brewery in St. Louis, Missouri.

Together We're Bitter

A brewery co-operative in Ontario, Canada, went treasure hunting for equipment. What they found would be the first of its kind in North America.

Better Life Via Milk

Employees in the Netherlands are reducing food waste and improving the lives of farmers by partnering with other global companies on sustainable ideas.

Exchanging Energy

When Mr. Beers called about a plate heat exchanger, he did not realize he would also get a solution to make his brewing process 20% more efficient.

FINANCIAL HIGHLIGHTS

Operating Results for the Year	2016	2015
Net Sales	$ 168,021,000	$ 178,595,000
Income (Loss) Before Taxes	(3,243,000)	12,613,000
Provision (Benefit) for Income Taxes	(962,000)	4,009,000
Net Income (Loss)	$ (2,281,000)	$ 8,604,000
Earnings (Loss) Per Common Share:		
Basic	$ (1.88)	$ 6.97
Diluted	$ (1.88)	$ 6.95
Year-End Position		
Total Assets	$ 104,665,000	$ 118,596,000
Working Capital	$ 7,538,000	$ 9,270,000
Current Ratio	1.20	1.19
Shareholders' Investment	$ 30,466,000	$ 31,747,000
Book Value Per Share	$ 25.39	$ 25.66
Common Shares Outstanding	1,200,021	1,237 ,220
Backlog (Unaudited)	$ 44,241,000	$ 58,385,000

Fellow Shareholders:

While 2016 was disappointing financially, 2017 is underway and we are encouraged by several new developments. We have reached a safety milestone in Springfield that we have not seen since I became president in 2011. Our backlog in the U.S. is also higher today than it has been since I have served in this role. Additionally, we are announcing an investment in The Netherlands, which will enhance the culture and effectiveness of our coworkers there. The positive changes we began five years ago continue, and I am thankful to my coworkers for their efforts.

The Company ended 2016 with a loss of $2.3 million. The loss was driven by planned initiatives such as the pension settlement and roof repairs, combined with a difficult year of business. Revenue in 2016 fell 6% to $168 million. Backlog fell 24% from $58 million to $44 million. After this slow year, activity has picked up in the beginning of 2017. Backlog has grown to $66 million as of January 31, 2017.

Revenue was lower in each of our segments except field fabrication. Mueller Field Operations (MFO), led by Jeremy Rogles, had higher revenue on a series of good projects including a brewery in Virginia Beach for which MFO, and our beer and beverage group, provided the complete brewery system and installation.

There were significant changes in the dairy farm segment in 2016 both in the United States and in The Netherlands. In both markets, revenue and backlog fell during the year, and each business incurred higher costs. The dairy farm group in the U.S. had higher costs associated with starting milk cooler production in Springfield, as discussed in last year's letter. They have now rebuilt their backlog to a level higher than a year ago on the strength of the Canadian market, where changes to the quota system and higher fees for everyday milk pickup are driving a need for larger coolers. As they begin a busy year, they welcome Gregg Shirey as their new General Manager. Gregg has been an influential engineer and business leader in our company for 35 years, and I am excited to see him return to the dairy farm group in this new role.

In The Netherlands, Mueller BV had a similarly slow year with higher costs as the ERP system discussed last year was completed and put into service. The strong market for milk coolers which we experienced in The Netherlands for a number of years has slowed. Mueller BV, led by Wytze Tjepkema, working to replace this work, has grown backlog during the first two months of 2017 with significant orders for our Temp-Plate® heat transfer surface. Their focus on this activity has led them to acquire the remaining 51% of DEG engineering which designs heat exchange solutions based on this product.

Our industrial equipment segment had a profitable year, showing a significant improvement on lower revenue. In 2016, the focus on operating this business as separate product lines resulted in significant operational improvements and the ability to profitably absorb resources from the tank trailer product line. This segment now has the potential to grow in 2017. The pharmaceutical product lines, led by Cary Kapper and John Minor, obtained a number of significant orders responsible for the majority of the backlog growth that occurred in January of 2017.

In addition to these highlights from our three main segments, we want to update you on the three initiatives we announced in this letter a year ago and a new project that we are undertaking.

During 2016, we made a lump sum offer to a portion of the participants in the domestic pension plan. On September 26, 2016, payments of $13.8 million were made from the assets of the plan to the participants who elected to receive them. This action reduced the risk in the plan, settling about 13.6% of the obligation. The payments did not have a significant effect on the funded status of the plan, reducing the plan assets and liabilities by similar amounts, but will reduce expenses such as PBGC premiums and administrative costs in the future. While the payments were made from the assets of the plan, the $6.7 million settlement was a non-cash reduction of earnings already recorded on the balance sheet.

Also, as previously discussed, we are making repairs to the roofs at the Springfield facility. The first phase, covering five of the eight main production bays, was budgeted at $2 million and has been completed at a cost of $1.7 million. This amount was expensed in 2016. In 2017, work will continue with smaller projects and is budgeted at $1.2 million of expense for the year.

Finally, in 2016 we began a share repurchase plan, which we will continue. In 2016, we acquired $1.1 million worth of shares on the open market through a Rule 10b5-1 plan and through privately negotiated transactions. For more information about this program, please contact us directly at the Company.

Looking forward, we are excited to announce a significant project in The Netherlands. Our Dutch operations, run by our subsidiary Mueller BV, are composed of multiple companies and locations acquired in two transactions in 2008. Collectively, we have 254 coworkers in four facilities. This business began in the late 1960s as a joint venture between Paul Mueller Company and the Meko companies to manufacture milk coolers in Lichtenvoorde. The Meko companies marketed and serviced the products of the joint venture. In 2008, we formed Mueller BV, acquiring both the former joint venture and the Meko companies.

Today, Mueller BV still contains the separate locations and some of the separate cultures of the acquired companies. There are significant gains to be made by completing our unification in one location with one culture. We have chosen a location for a new facility in Groenlo, a short distance from our main plant in Lichtenvoorde. The €20 million ($21 million) project is expected to have a positive return based on reducing the costs of operating four separate facilities, the rent paid on three of the facilities, and the sale of the primary manufacturing location in Lichtenvoorde. Beyond this, the project will result in our coworkers gaining a more common understanding of our goals, an improved ability to serve our customers, and opportunities for greater efficiency and growth. Pending final approval of construction plans and loan documents, construction should start in the summer of 2017 with a completion date projected to be in the summer of 2018.

We are excited about our future and the ability to make a positive impact in the lives of our customers, coworkers, and shareholders. We strive to create products, careers, and a business with quality that lasts for life. We invite you to become more familiar with our work through the stories included in this report, and perhaps share them with a potential customer.

Thank you,

David Moore

David Moore
President and CEO

March 17, 2017

A Beautiful Tank Transport

It took a calculated team effort to get this 55-foot unitank to its home outside the visitor's center of a popular brewer in St. Louis, Missouri. A unitank is part fermenter, part bright tank, and this one was built in just 12 weeks.

Since the tank was also ASME Code-stamped, we had to stand it up with a special crane and fill it with 25,000 gallons of water for pressure testing.

After Mueller Transportation test drove the entire route to carefully measure bridges and underpasses, this beauty was on its way. The tight squeeze you see above actually had one inch to spare as it "crawled" under the bridge near St. Louis. Not a scratch on it!

To read more about the employee innovation around this project, go to: http://academy.paulmueller.com/building-an-outdoor-unitank

Consolidated Statements of Income (Loss) for the Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Net Sales	$ 168,021,000	$ 178,595,000	$ 200,713,000
Cost of Sales	123,291,000	126,362,000	147,189,000
Gross profit	44,730,000	52,233,000	53,524,000
Selling, General, and Administrative Expenses	47,888,000	39,035,000	42,616,000
Operating income (loss)	(3,158,000)	13,198,000	10,908,000
Other Income (Expense):			
Interest income	–	–	5,000
Interest expense	(294,000)	(362,000)	(754,000)
Other, net	209,000	(223,000)	(145,000)
Total Other Income (Expense)	(85,000)	(585,000)	(894,000)
Income (loss) before provision (benefit) for income taxes	(3,243,000)	12,613,000	10,014,000
Provision (Benefit) for Income Taxes	(962,000)	4,009,000	3,137,000
Net Income (Loss)	$ (2,281,000)	$ 8,604,000	$ 6,877,000
Earnings (Loss) Per Common Share:			
Basic	$ (1.88)	$ 6.97	$ 5.60
Diluted	$ (1.88)	$ 6.95	$ 5.56

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

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Net Income (Loss)	$ (2,281,000)	$ 8,604,000	$ 6,877,000
Other Comprehensive Income (Loss), Net of Tax:			
Foreign currency translation adjustment	$ (1,146,000)	$ (2,774,000)	$ (3,019,000)
Change in pension liability	3,238,000	1,744,000	(11,531,000)
Amortization of de-designated hedges	21,000	26,000	33,000
Comprehensive Income (Loss)	$ (168,000)	$ 7,600,000	$ (7,640,000)

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

Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 357,000	$ 545,000
Accounts receivable, less reserve for doubtful accounts of $394,000 for 2016 and $811,000 for 2015	18,083,000	22,587,000
Costs and estimated earnings in excess of billings	174,000	52,000
Inventories: Raw materials and components	6,361,000	8,017,000
Work-in-process	4,843,000	7,616,000
Finished goods	12,922,000	16,308,000
	24,126,000	31,941,000
Prepayments	1,983,000	2,460,000
Total current assets	44,723,000	57,585,000
Property, Plant, and Equipment:		
Land and land improvements	5,474,000	5,498,000
Buildings	18,083,000	18,026,000
Fabrication equipment	87,161,000	84,028,000
Transportation, office, and other equipment	20,288,000	20,736,000
Construction-in-progress	489,000	1,247,000
	131,495,000	129,535,000
Less: Accumulated depreciation	(97,950,000)	(93,817,000)
	33,545,000	35,718,000
Goodwill	13,554,000	11,597,000
Deferred Taxes	11,878,000	12,524,000
Other Assets	965,000	1,172,000
Total Assets	$ 104,665,000	$ 118,596,000
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 7,859,000	$ 10,478,000
Current maturities of long-term debt	384,000	390,000
Accounts payable	8,165,000	11,672,000
Accrued expenses: Payroll and benefits	4,252,000	5,058,000
Vacations	1,195,000	1,451,000
Other	2,044,000	2,591,000
Advance billings	12,235,000	14,117,000
Billings in excess of costs and estimated earnings	1,051,000	2,558,000
Total current liabilities	37,185,000	48,315,000
Long-Term Pension Liabilities	31,628,000	32,527,000
Long-Term Debt, Less Current Maturities	4,558,000	5,003,000
Other Long-Term Liabilities	828,000	1,004,000
Total Liabilities	74,199,000	86,849,000
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	9,708,000
Retained earnings	61,582,000	63,863,000
	72,798,000	75,079,000
Less: Treasury stock – 307,460 shares for 2016 and 270,261 shares for 2015, at cost	(6,227,000)	(5,114,000)
Accumulated other comprehensive (loss)	(36,105,000)	(38,218,000)
Total Shareholders' Investment	30,466,000	31,747,000
Total Liabilities and Shareholders' Investment	$ 104,665,000	$ 118,596,000

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

Consolidated Statements of Shareholders' Investment for the Years Ended December 31, 2016, 2015, and 2014

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
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
Add (Deduct):						
Net (loss)	–	–	(2,281,000)	–	–	(2,281,000)
Other comprehensive income, net of tax	–	–	–	–	2,113,000	2,113,000
Treasury stock acquisition	–	–	–	(1,113,000)	–	(1,113,000)
Balance – 12-31-2016	$ 1,508,000	$ 9,708,000	$ 61,582,000	$ (6,227,000)	$ (36,105,000)	$ 30,466,000

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

Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Cash Flows from Operating Activities:			
Net income (loss)	$ (2,281,000)	$ 8,604,000	$ 6,877,000
Adjustments to reconcile net income (loss) to net cash (required) provided by operating activities:			
Pension contributions (greater) less than expense	2,339,000	(1,734,000)	3,890,000
Bad debt expense	(469,000)	102,000	(57,000)
Depreciation and amortization	6,179,000	5,665,000	6,009,000
(Gain) loss on sales of equipment	(22,000)	22,000	(17,000)
Deferred tax (benefit) expense	(1,256,000)	2,462,000	1,439,000
Deferred tax valuation allowance – change	–	(7,000)	(28,000)
Other	(89,000)	(83,000)	75,000
Changes in assets and liabilities, net of effect of acquisitions –			
(Increase) decrease in accounts and notes receivable	4,630,000	(112,000)	(1,681,000)
(Increase) in costs and estimated earnings in excess of billings	(121,000)	(30,000)	(6,000)
(Increase) decrease in inventories	7,361,000	(6,769,000)	(1,775,000)
(Increase) decrease in prepayments	285,000	868,000	(1,348,000)
Decrease in other assets	1,000	408,000	356,000
(Increase) decrease in deferred taxes	1,893,000	905,000	(7,236,000)
Increase (decrease) in accounts payable	(1,937,000)	3,466,000	4,697,000
Increase (decrease) in other accrued expenses	(2,469,000)	(5,326,000)	950,000
Increase (decrease) in advance billings	(1,920,000)	5,441,000	(1,953,000)
Increase (decrease) in billings in excess of costs and estimated earnings	(1,507,000)	1,952,000	(1,538,000)
Increase (decrease) in long-term liabilities	94,000	(156,000)	13,000
Net cash provided by operating activities	10,711,000	15,678,000	8,667,000
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sales of equipment	65,000	79,000	55,000
Additions to property, plant, and equipment	(4,284,000)	(8,767,000)	(6,983,000)
Acquisition of DEG Engineering GmbH	(2,606,000)	–	–
Net cash (required) by investing activities	(6,825,000)	(8,688,000)	(6,928,000)
Cash Flow Provisions (Requirements) from Financing Activities:			
(Repayment) proceeds of short-term borrowings	(2,448,000)	(8,624,000)	6,605,000
Long-term debt proceeds	–	3,760,000	–
Principal payments on long-term debt	(414,000)	(3,381,000)	(7,501,000)
Treasury stock acquisitions	(1,113,000)	(5,000)	(7,000)
Net cash (required) by financing activities	(3,975,000)	(8,250,000)	(903,000)
Effect of Exchange Rate Changes	(99,000)	403,000	387,000
Net (Decrease) Increase in Cash and Cash Equivalents	(188,000)	(857,000)	1,223,000
Cash and Cash Equivalents at Beginning of Year	545,000	1,402,000	179,000
Cash and Cash Equivalents at End of Year	$ 357,000	$ 545,000	$ 1,402,000

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, 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. During 2016, Mueller B.V. acquired the remaining 51% of DEG Engineering GmbH as described in Footnote 2. Included in consolidated accounts receivable as of December 31, 2016 and 2015, are net receivables from DEG Engineering GmbH, a related party, of zero and $1,817,000, respectively.

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, 2016 and 2015, were as follows:

	2016	2015
Costs incurred on uncompleted contracts	$ 9,784,000	$ 2,897,000
Prepaid inventory	–	2,000
Estimated earnings	1,703,000	225,000
	$ 11,487,000	$ 3,124,000
Less: Billings to date	(12,358,000)	5,569,000
	$ (871,000)	$ (2,445,000)

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2016 and 2015, under the following captions were:

	2016	2015
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 173,000	$ 52,000
Income earned not invoiced included in accounts receivable	7,000	59,000
Prepaid inventory	–	2,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,051,000)	(2,558,000)
	$ (871,000)	$ (2,445,000)

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

Contracts with some customers provide for a portion of the sales amount to be retained by the customer for a period of time after completion of the contract. Retainages included in accounts receivable as of December 31, 2016, were $73,000. As of December 31, 2015, no retainages were included in accounts receivable.

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.

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, 2016, and 2015, the amounts in advanced billings were $12,235,000 and $14,117,000, respectively.

Inventories – Inventories are valued at the lower of cost or market. Inventory is adjusted using the inventory price index computation ("IPIC") last in, first-out ("LIFO") method. The IPIC method bases inflation measurements on data published by the U.S. Bureau of Labor Statistics. Under the first-in, first-out ("FIFO") method of accounting, which approximates current cost, Company inventories would have been $10,474,000 and $9,974,000 higher than those reported as of December 31, 2016 and 2015, respectively.

Inventories of Mueller B.V. were $12,857,000 and $14,549,000 as of December 31, 2016 and 2015, 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, 2016 and 2015.

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 $6,179,000, $5,398,000, and $5,458,000 for the years ended December 31, 2016, 2015, and 2014, 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 $591,000 during 2016, $382,000 during 2015, and $657,000 during 2014.

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, 2016 and 2015, there were no impairments.

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

	2016	2015	2014
Net income (loss)	$ (2,281,000)	$ 8,604,000	$ 6,877,000
Shares for basic earnings per common share –			
Weighted-average shares outstanding	1,211,093	1,235,328	1,228,838
Dilutive effect of restricted stock	–	1,872	7,554
Shares for diluted earnings per common share –			
Adjusted weighted-average shares outstanding	1,211,093	1,237,200	1,236,392
Earnings (loss) per common share:			
Basic	$ (1.88)	$ 6.97	$ 5.60
Diluted	$ (1.88)	$ 6.95	$ 5.56

Comprehensive Income (Loss) – The components of other comprehensive income (loss) for the years ended December 31, 2016, 2015, and 2014, were as follows:

	2016	2015	2014
Foreign currency translation adjustment	$ (1,146,000)	$ (2,774,000)	$ (3,019,000)
Tax	–	–	–
Foreign currency translation adjustment, net of tax	(1,146,000)	(2,774,000)	(3,019,000)
Change in pension liability	5,131,000	2,772,000	(18,741,000)
Tax	(1,893,000)	(1,028,000)	7,210,000
Change in pension liability, net of tax	3,238,000	1,744,000	(11,531,000)
Amortization on de-designated hedges	21,000	26,000	33,000
Other comprehensive income (loss)	$ 2,113,000	$ (1,004,000)	$ (14,517,000)

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, 2016, 2015, and 2014, were as follows:

	2016	2015	2014
Interest payments	$ 482,000	$ 521,000	$ 789,000
Income tax payments	$ 772,000	$ 1,152,000	$ 1,670,000
Non-cash activities related to investing and financing activities:			
Change in equity related to swap position	$ 21,000	$ 26,000	$ 33,000

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

	Shares	
	Common	Treasury
Balance – December 31, 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
Treasury stock acquisition	–	37,199
Balance – December 31, 2016	1,507,481	307,460

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 2016, 2015, and 2014, 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, 2016, 2015, or 2014.

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, 2016, 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, 2016, no provision has been made for U.S. federal deferred income taxes on $27,683,000 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.

Derivatives – The Company follows FASB ASC (Topic 815) – "Accounting for Derivative Investments and Hedging Activities." 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, 2016, 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, with no effect to shareholders' investment, net income, or earnings per share.

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, 2018. 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 as of January 1, 2016, did not 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. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2017. Early adoption is permitted, and this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company adopted this standard on January 1, 2016, on a retrospective basis, resulting in all deferred income tax assets and liabilities being presented as noncurrent.

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, 2016, 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.

During 2016, Mueller B.V. acquired the remaining 51% of DEG Engineering GmbH for $263,000 in cash, the forgiveness of a $2,152,000 payable owed to Mueller B.V. from DEG Engineering GmbH, and $96,000 in other considerations. The DEG Engineering GmbH acquisition included brand assets and patents useful in growing Mueller B.V. industrial and heat transfer business segments in international markets. The assets and liabilities of the acquired business were recorded at full value based on discounted cash flow model as of the date of control, July 13, 2016. Goodwill of $1,957,000 arising from the acquisition related primarily for expected increase in revenue and future cash flows from operations from product sales associated with the patents. The goodwill is tax deductible.

The purchase prices of Paltrok, MEKO, and DEG 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	DEG
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	191,000
Goodwill	3,099,000	5,926,000	2,307,000
Other assets	434,000	465,000	13,000
Total assets acquired	$ 26,833,000	$ 49,962,000	$ 2,511,000
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	$ 2,511,000

(3) Goodwill and Intangible Assets:

Intangible assets as of December 31, 2016 and 2015, consisted of the following and are included in other assets on the Consolidated Balance Sheets:

	Brand Names	Patents	Customer Relationships	Total
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
Amortization 2016	–	–	(252,000)	(252,000)
Foreign currency fluctuation	–	–	(4,000)	(4,000)
Acquisition of DEG	52,000	139,000	–	191,000
Balance as of December 31, 2016	$ 52,000	$ 139,000	$ 213,000	$ 404,000

Average amortization periods for brand names and customer relationships are six and nine years, respectively. Aggregate amortization of intangible assets was $252,000, $254,000, and $506,000 for the years ended December 31, 2016, 2015, and 2014, respectively. Estimated aggregate amortization for the next five years and thereafter are as follows:

2017	$ 252,000
2018	37,000
2019	34,000
2020	19,000
2021	5,000
Thereafter	57,000
	$ 404,000

The changes in the carrying amount of goodwill for the years ended December 31, 2016, 2015, and 2014, were as follows:

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
Acquisition of DEG	1,957,000
Balance as of December 31, 2016	$ 13,554,000

(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 $812,000 for 2016, $834,000 for 2015, and $794,000 for 2014.

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, 2016, 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 2016	Pension Protection Act Zone Status 2015	FIP/RP Status Pending/ Consolidated	Company Contributions 2016	Company Contributions 2015	Company Contributions 2014	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
Boilermaker-Blacksmith National Pension Trust	48-6168020/001	Yellow	Yellow	Yes	$ 395,373	$ 436,552	$ 669,672	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 $1,238,000 for 2016, $1,513,000 for 2015, and $1,483,000 for 2014.

Total domestic pension expense under the plans was $8,407,000 for 2016, $1,255,000 for 2015, and $833,000 for 2014. The required minimum contributions to be made in 2017 are estimated to be $4,061,000. 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:

	2016	2015
Change in projected benefit obligation –		
Benefit obligation as of beginning of year	$ 101,457,000	$ 109,616,000
Interest cost	4,549,000	4,735,000
Settlements	(13,830,000)	–
Actuarial (gain) loss	2,177,000	(8,360,000)
Benefits paid and expenses	(4,844,000)	(4,534,000)
Benefit obligation as of end of year	$ 89,509,000	$ 101,457,000
Change in plan assets –		
Fair value of plan assets as of beginning of year	$ 68,930,000	$ 73,612,000
Actual return on plan assets	3,450,000	(2,108,000)
Employer contributions	4,175,000	1,960,000
Settlements	(13,830,000)	–
Benefits paid and expenses	(4,844,000)	(4,534,000)
Fair value of plan assets as of end of year	$ 57,881,000	$ 68,930,000
Funded status	$ (31,628,000)	$ (32,527,000)
Funded status as of end of year	$ (31,628,000)	$ (32,527,000)

Components of pension expense for the three years were:

	2016	2015	2014
Interest cost	$ 4,549,000	$ 4,735,000	$ 4,771,000
Expected return on plan assets	(4,304,000)	(4,889,000)	(4,799,000)
Amortization of prior service cost	1,441,000	1,409,000	861,000
Net loss due to settlements	6,721,000	–	–
Net periodic pension expense	$ 8,407,000	$ 1,255,000	$ 833,000

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

	2016	2015
Projected benefit obligations	$ 89,509,000	$ 101,457,000
Accumulated benefit obligations	$ 89,509,000	$ 101,457,000
Fair value of plan assets	$ 57,881,000	$ 68,930,000

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

	2016	2015
Discount rate	4.54%	4.86%
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:

	2016	2015	2014
Discount rate	4.63%	4.42%	5.34%
Expected long-term return on plan assets	6.67%	6.78%	6.78%
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 increased from 4.42% for 2015 to 4.63% for 2016. The effect of the rate increase was to decrease pension expense by $19,000 for 2016. 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 6.67% for 2016 and 6.78% for 2015.

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:

	2016	2015
Asset category:		
Equities	58%	61%
Fixed income	40%	38%
Other	2%	1%
	100%	100%

The long-term asset allocation on average will approximate 58% in equities and 42% 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, 2016 and 2015:

Asset Category	Fair Value at 12-31-16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 1,015,000	$ 1,015,000[a]	$ –	$ –
Equity securities	34,024,000	34,024,000[b]	–	–
Fixed income securities	22,842,000	–[c]	22,842,000[c]	–
Total plan assets	$ 57,881,000	$ 35,039,000	$ 22,842,000	$ –

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	$ –

(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.

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

2017	$ 5,023,000
2018	5,091,000
2019	5,224,000
2020	5,357,000
2021	5,390,000
2022 through 2026	28,220,000
	$ 54,305,000

Included in accumulated other comprehensive loss as of December 31, 2016, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $42,462,000 ($30,573,000, net of tax). 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). 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, 2017, is $1,393,000.

(5) Income Taxes:

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

	2016	2015	2014
Current tax expense	$ 294,000	$ 1,554,000	$ 1,726,000
Deferred, net	(1,256,000)	2,462,000	1,439,000
Valuation allowance – change	–	(7,000)	(28,000)
	$ (962,000)	$ 4,009,000	$ 3,137,000

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, 2016 and 2015, is shown below:

	2016	2015
Deferred tax assets:		
Worker's compensation	$ 153,000	$ 198,000
Vacation	366,000	447,000
Warranty	107,000	99,000
Doubtful accounts	86,000	191,000
Pensions	10,984,000	11,820,000
Inventory	279,000	287,000
Tax attribute carryforward	2,874,000	2,413,000
Other	1,219,000	700,000
Net deferred tax assets	$ 16,068,000	$ 16,155,000
Deferred tax liabilities:		
Intangibles	$ (1,051,000)	(1,009,000)
Property, plant, and equipment	(2,332,000)	(2,622,000)
Other liabilities	(807,000)	–
Net deferred tax liabilities	$ (4,190,000)	$ (3,631,000)
Net deferred tax assets	$ 11,878,000	$ 12,524,000

On the accompanying Consolidated Balance Sheets, net deferred tax assets are included as non-current assets. Income taxes receivable (payable) at December 31, 2016 and 2015, were $444,000 and $162,000, 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, 2016, the tax effected deferred tax assets included $251,000 related to state net operating losses and $858,000 related to federal net operating losses, which expire between the years 2016 and 2034. Tax credits as of December 31, 2016, of $1,405,000 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, 2016, follows:

	2016	Rates	2015	Rates	2014	Rates
Statutory federal income tax expense	$ (1,103,000)	34%	$ 4,288,000	34%	$ 3,405,000	34%
Increase (decrease) in taxes resulting from:						
Tax credits	(103,000)	3.17%	(824,000)	(6.53%)	(40,000)	(.40%)
State tax, net of federal benefit	(141,000)	4.35%	238,000	1.89%	168,000	1.68%
Net unrecognized tax positions	(31,000)	.96%	14,000	.11%	8,000	.08%
International taxes	(193,000)	5.95%	(498,000)	(3.95%)	(545,000)	(5.44%)
Deferred rate change	45,000	(1.39%)	599,000	4.75%	143,000	1.43%
Permanent differences	53,000	(1.63%)	51,000	.40%	63,000	.62%
Other, net	511,000	(15.76%)	148,000	1.17%	(37,000)	(.37%)
Valuation allowance change	–	–	(7,000)	(.05%)	(28,000)	(.28%)
	$ (962,000)	29.65%	$ 4,009,000	31.79%	$ 3,137,000	31.32%

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2016 and 2015, are included in deferred taxes on the accompanying Consolidated Balance Sheets:

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
Additions based on tax positions related to the current year	53,000
Reductions for tax positions of prior years	(31,000)
Balance as of December 31, 2016	$ 682,000

The Company's federal tax returns for years 2007 to 2010 were reviewed by the Internal Revenue Service in 2011. The Internal Revenue Service Joint Committee approved the review in 2012 and only minor adjustments to the original returns were made during the exam. State statutes vary, but state income tax returns are generally subject to examination from 2009 forward. The unrecognized benefits of $682,000 as of December 31, 2016, 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, 2016, 2015, and 2014.

(6) Borrowings:

In 2014, the Company entered into a 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. The Company has a financial leverage covenant of Total Debt to EBITDA and a minimum fixed charge coverage at 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, 2016, was 1.90%. As of December 31, 2016, the balance outstanding was $2,844,000 under the facility.

The Company was in violation of the fixed charge coverage covenant on its domestic bank borrowing facility at December 31, 2016. Subsequent to year end, a waiver was obtained from the lender for the covenant violation as of December 31, 2016.

In, 2015, Mueller B.V.'s operating companies entered into a bank borrowing facility starting at $9,450,000 with step down provisions. As of December 31, 2016, the facility was $7,875,000. 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, have a limit on capital expenditures, minimum tangible net worth requirements, and a Total Debt to EBITDA leverage test. Total borrowing under the facilities was $5,015,000 as of December 31, 2016, and $5,867,000 as of December 31, 2015.

As of December 31, 2016, the Company had long-term notes payable with an outstanding balance of $4,942,000. 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 2016	Outstanding Balance 2015	Current Maturities 2016	Current Maturities 2015
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.	$ 4,985,000	$ 4,633,000	$ 525,000	$ 545,000
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 .33%. Payments are made quarterly.	267,000	307,000	29,000	30,000
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 .33%. Payments are made quarterly.	1,312,000	1,472,000	105,000	109,000
Notes payable related to Mueller B.V. and subsidiaries	6,564,000	6,412,000	659,000	684,000
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 2.24%. Payments are made monthly.	3,363,000	3,614,000	250,000	251,000
Elimination of intercompany loans	(4,985,000)	(4,633,000)	(525,000)	(545,000)
Total notes payable	$ 4,942,000	$ 5,393,000	$ 384,000	$ 390,000

The principal payments of the notes payable as of December 31, 2016, and for future years are listed below:

2017	$ 384,000
2018	385,000
2019	385,000
2020	2,744,000
2021	134,000
Thereafter	910,000
	$ 4,942,000

(7) Guarantees:

The Company has two standby letter-of-credit facilities of $5,000,000 and $437,000. As of December 31, 2016, there were standby letters of credit totaling $984,000 and $437,000, 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, 2016 and 2015:

	2016	2015
Beginning balance	$ 1,028,000	$ 1,537,000
Costs incurred to satisfy warranty claims	(749,000)	(1,189,000)
Aggregate warranty reserves made	1,003,000	914,000
Aggregate changes to warranty reserves	(238,000)	(234,000)
Ending balance	$ 1,044,000	$ 1,028,000

(8) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $1,918,000 and terms exceeding one year. The lease expense for the years ended December 31, 2016, 2015, and 2014, was $1,142,000, $1,132,000, and $1,099,000, respectively. The future minimum lease payments for each of the years subsequent to December 31, 2016, will be:

2017	$ 717,000
2018	553,000
2019	380,000
2020	131,000
2021	92,000
2022 and after	45,000
	$ 1,918,000

(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).

	2016					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 80,037,000	$ 73,920,000	$ 11,953,000	$ 2,111,000	$ –	$ 168,021,000
Depreciation and amortization expense	$ 3,745,000	$ 1,972,000	$ 35,000	$ 77,000	$ 350,000	$ 6,179,000
Income (loss) before income tax	$ 5,116,000	$ 478,000	$ 1,530,000	$ (97,000)	$ (10,270,000)	$ (3,243,000)
Assets	$ 55,311,000	$ 28,048,000	$ 2,145,000	$ 410,000	$ 18,751,000	$ 104,665,000
Additions to property, plant, and equipment	$ 3,219,000	$ 747,000	$ 43,000	$ 106,000	$ 169,000	$ 4,284,000

	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

Revenues from external customers by product category for the three years ended December 31, 2016, were:

	2016	2015	2014
Milk cooling and storage equipment	$ 79,881,000	$ 83,874,000	$ 90,920,000
Process vessels and tanks	75,988,000	81,795,000	97,222,000
Other industrial equipment	12,152,000	12,926,000	12,571,000
	$ 168,021,000	$ 178,595,000	$ 200,713,000

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, 2016, were:

	2016	2015	2014
United States	$ 93,316,000	$ 98,826,000	$ 113,550,000
North America (excluding the U.S.)	10,434,000	8,768,000	9,026,000
Asia and the Far East	5,972,000	5,479,000	2,511,000
The Netherlands	35,309,000	39,551,000	43,307,000
Other EU countries	17,751,000	23,746,000	26,588,000
Other areas	5,239,000	2,225,000	5,731,000
	$ 168,021,000	$ 178,595,000	$ 200,713,000

During 2016, 2015, and 2014, export sales to any one country were not in excess of 10% of consolidated sales.

During 2016, 2015, and 2014, 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, 2016, were:

	2016	2015	2014
North America	$ 15,036,000	$ 16,052,000	$ 14,842,000
Asia and the Far East	2,209,000	2,421,000	2,523,000
The Netherlands	30,258,000	29,311,000	30,772,000
	$ 47,503,000	$ 47,784,000	$ 48,137,000

(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 2016, 2015, and 2014.

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, 2016.

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.

No compensation expense recognized for restricted shares for the year ended December 31, 2016. Compensation expense recognized for the restricted shares was $13,000 and $45,000, for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2016, 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, 2016, was zero.

(11) Fair Value Measurements:

In accordance with ASC Topic 820 – "Fair Value Measurements and Disclosures" (ASC 820), the Company utilizes market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The ASC defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands guidance establishing the following hierarchy for categorizing these inputs:

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

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

Level 3 – Significant unobservable inputs.

The following table presents fair value measurements as of December 31, 2016:

	Fair Value Measurements			Liabilities at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments	$ –	$ 20,000	$ –	$ 20,000
Total	$ –	$ 20,000	$ –	$ 20,000

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

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 expired 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, 2016, remain in accumulated other comprehensive income (loss) as of the de-designation date. As of December 31, 2016 and 2015, the estimated fair value of the interest rate swaps was a net liability of $20,000 and $107,000, respectively, and was included in other long-term liabilities on the Consolidated Balance Sheets.

(12) Subsequent Events

Management has evaluated subsequent events through March 17, 2017, the date the consolidated financial statements were available to be issued.

On March 17, 2017, the Company announced plans to build a new facility in Groenlo, a town in the east-central portion of The Netherlands. The new facility will be located 10 kilometers (approximately 6 miles) from one of Paul Mueller Company's current Dutch manufacturing facilities in Lichtenvoorde.

Groenlo was chosen because of its close proximity to the current Lichtenvoorde location, easing the transition for the majority of the production employees. Working together in one location, employees can better develop common goals and address customer needs.

The new facility will consolidate four locations the Company currently operates in The Netherlands, including the Lichtenvoorde location. The €20 million ($21 million) project is expected to have a positive return based on reducing the costs of operating four separate facilities, the rent paid on three of the facilities, and the sale of the primary manufacturing location in Lichtenvoorde. It will also combine the companies acquired in 2008 into one location creating a stronger culture and improving collaboration and efficiencies.

Pending final approval of construction plans and loan documents, construction should start in the summer of 2017 with a completion date projected to be in the summer of 2018.

This page has been intentionally left blank.

Safe Harbor for Forward-Looking Statements

The President's message on pages 3 and 4 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.

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, 2016 and 2015, and the related consolidated statements of income, comprehensive income (loss), shareholders' investment, and cash flows for the years ended December 31, 2016, 2015, and 2014, 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, 2016 and 2015, and the results of its operations and its cash flows for the years ended December 31, 2016, 2015, and 2014 in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City Missouri
March 17, 2017

Selected Financial Data – Five-Year Summary, Market and Dividend Information by Quarter, and Financial Highlights by Quarter (Unaudited) for the Years 2016 and 2015

Selected Financial Data – Five-Year Summary

	2016	2015	2014	2013	2012
Net sales	$ 168,021,000	$ 178,595,000	$ 200,713,000	$ 181,257,000	$ 179,561,000
Net income (loss)	$ (2,281,000)	$ 8,604,000	$ 6,877,000	$ 18,893,000	$ 1,965,000
Earnings (loss) per common share:					
Basic	$ (1.88)	$ 6.97	$ 5.60	$ 15.55	$ 1.61
Diluted	$ (1.88)	$ 6.95	$ 5.56	$ 15.45	$ 1.59
Common shares outstanding	1,200,021	1,237,220	1,237,379	1,237,591	1,239,628
Total assets	$ 104,665,000	$ 118,596,000	$ 120,022,000	$ 114,271,000	$ 101,466,000
Long-term debt	$ 4,558,000	$ 5,003,000	$ 1,991,000	$ 8,776,000	$ 14,404,000
Shareholders' investment (deficit)	$ 30,466,000	$ 31,747,000	$ 24,139,000	$ 31,741,000	$ (1,465,000)
Working capital	$ 7,538,000	$ 9,270,000	$ 4,411,000	$ 5,615,000	$ (3,605,000)
Book value per common share	$ 25.39	$ 25.66	$ 19.51	$ 25.65	$ (1.18)
Average number of employees	918	954	976	929	869

Market Information by Quarter

	2016				2015			
	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	$ 31.00	$ 31.00	$ 30.00	$ 30.00	$ 48.99	$ 34.00	$ 36.00	$ 30.01
Low	$ 23.00	$ 25.90	$ 27.00	$ 26.95	$ 30.00	$ 30.01	$ 29.50	$ 25.35

The Company's common stock is traded over-the-counter based on quotes obtained by market makers from OTC Markets Group. The market price data was obtained from NASDAQ for 2016 and 2015.

Financial Highlights by Quarter, Unaudited (in Thousands, Except Per Share Data)

	Quarter Ended March 31		Quarter Ended June 30		Quarter Ended September 30		Quarter Ended December 31	
	2016	2015	2016	2015	2016	2015	2016	2015
Net sales	$ 41,161	$ 44,643	$ 45,524	$ 49,710	$ 44,116	$ 40,102	$ 37,220	$ 44,140
Gross profit	$ 12,316	$ 12,202	$ 12,804	$ 15,018	$ 10,999	$ 12,969	$ 8,611	$ 12,044
Net income (loss)	$ 911	$ 1,606	$ 762	$ 3,027	$ (3,199)	$ 2,293	$ (755)	$ 1,678
Earnings (loss) per common share:								
Basic	$ .74	$ 1.31	$ .63	$ 2.45	$(2.66)	$ 1.85	$ (.63)	$ 1.36
Diluted	$ .74	$ 1.30	$ .63	$ 2.45	$(2.66)	$ 1.85	$ (.63)	$ 1.36

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 – Keystone 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

MUELLER

PAUL MUELLER COMPANY

TRANSFER AGENT

COMPUTERSHARE, INC.
250 Royall Street
Canton, MA 02021

Tapping the Unexpected

The members of Together We're Bitter (TWB), a co-operative brewery, wanted to bring craft brewing to the heart of Kitchener, Ontario. There was lots to consider, like financing, location and equipment. The team members knew they needed an entire brewing system to get this project off the ground. They found some unique used equipment and a surprise they were not expecting from Paul Mueller Company.

The newly-found equipment had been sitting in storage for a while, having made its way from a brewery in Croatia. Included in the unusual system were some horizontal tanks that just did not make sense... "I had never seen this equipment before and I was worried we were getting antiquated technology. But after a little research we discovered it was just the opposite. The tanks are serving beer tanks and we came to realize they are on the forefront of something revolutionary!" said co-op member/owner Rob Shorney.

Eventually the team discovered the serving beer tanks were made by Paul Mueller Company. Rob contacted Gregg Shirey, Director of Business Development. Gregg explained how the tanks use high strength bag inliners and air-powered beer storage and delivery devices, and are self-cooled.

"The inliners eliminate the use of cleaning chemicals and significantly reduce cleaning time and labor," said Culum Canally, another TWB member/owner.

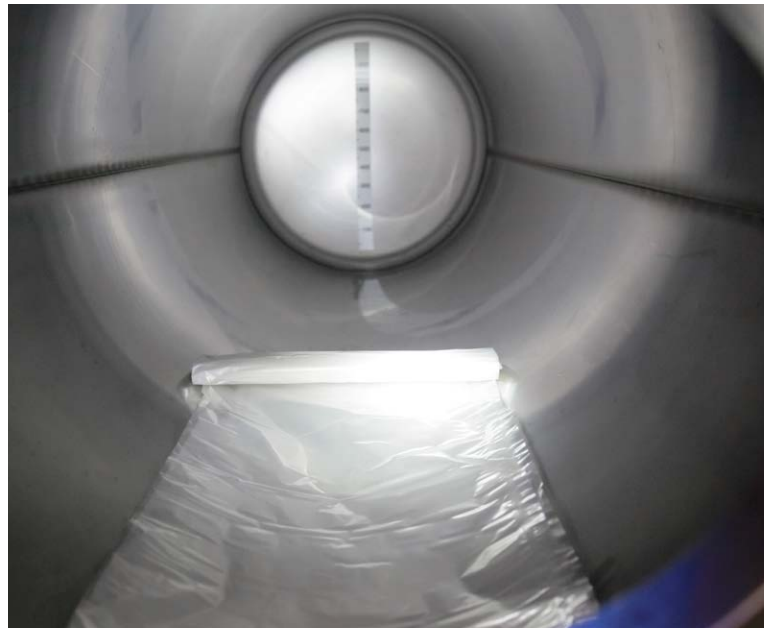
The tanks allowed the co-op to greatly reduce the size of their planned cold room and keg storage. Those are savings that make the tanks a great return on investment, but they are also a great addition to the brewery's story.

"Serving beer tanks are the most unique part of our operation," said Rob. "When other craft brewers come in, it's the first thing they want to see. They know they are spending a lot of time on kegging, washing kegs and labor and they could be saving that money by switching to the serving beer tank system."

Rob also said customers love to see how the taps in the serving room are hooked up directly to the tanks. They perceive their beer being fresher and it is!

"It's one less step from the tank to the pint thanks to the partnership with Paul Mueller Company and serving beer tanks!"

TWB brewer Culum Canally and Gregg Shirey of Paul Mueller Company.



Inliner placed and ready to receive fresh beer.

Serving beer tanks in use in Kitchener, Ontario.

Making an Impact With Milk in Africa

So here is the challenge: In some emerging dairy sectors in developing African countries, raw milk cannot be cooled at dairy farms due to lack of access to reliable electricity. This means much of the evening milk goes bad overnight in the heat. It is lost income for farmers and a widening gap between milk supply and milk demand. Post-harvest milk losses are estimated at 40%. Paul Mueller Company in the Netherlands is innovating multiple solutions to this problem through different stages of milk production. In Uganda, Mueller employees have been working to set up about 100 milk collection centers, where milk is centrally collected, cooled, and stored under acceptable standards. Typically farmers had to transport their milk far away to a processor in a bigger city. With the collection centers, farmers can bicycle their milk to the closest village where dairy co-ops are developing among small farmers. These co-ops allow farmers to not only make more income from their milk, but to also create positive foundational changes to their community infrastructure. As they struggle less for daily survival, farmers engage in new business ventures—like adding crops to their farm or re-building schools. The ripple effect helps increase access to food, jobs, and medical care and encourages young people to stay and continue to build prosperity.

Working to improve the lives of farmers and families

Mueller employees also partnered with BoP (Base of Pyramid) Innovation Center to develop a solar-powered milk cooling unit for small-scale farmers in Ethiopia. Enabled with the power to store and cool milk directly on their farms, these farmers can increase their income by delivering and selling the highest quality of milk possible. Mueller teamed up with another partner in innovation, a company called SimGas, a biogas provider in Africa. The company was looking to expand their system, and worked with Mueller to develop an off-grid biogas-powered milk cooling system for small dairy farms. The collaboration helped SimGas win an OpenIDEO Agriculture Innovation Award in 2016! It will be the first product commercially available that enables small herd dairy farmers to preserve milk according to standards accepted by international milk buyers. Whether it is milk collection sites in Uganda or off-grid milk coolers in Ethiopia, Mueller employees are dedicated to sustainability and improving the lives of dairy farmers everywhere.

This SimGas® biogas powered cooler allows for off-grid, safe storage of fresh milk.

Farmers bike their fresh milk to nearby collection stations.

Thanks for the Heat Exchanger Help

Tanner Beers (yes, his real name) is head brewer at Anthem Brewery in Oklahoma City, Oklahoma. When Tanner noticed some contamination in his beer, he traced it back to a used Paul Mueller Company plate heat exchanger he had purchased on the open market. Because the used plate heat exchanger came from an unknown source, there was no way to know if it was configured for a brewery, what kind of parts had been replaced on it, or what the previous owners used to clean the plates. Tanner called us up and talked to Marilyn Parrish in our Accu-Therm® product group.

"Everything worked the way Mueller said it would."

Marilyn was able to help Tanner track down the origin of the unit. It was a dairy farm equipment plate heat exchanger from 2001! Marilyn also called in Paul Mueller Company application engineer Victor Shafer. Victor helped Tanner identify the leaky plate causing the problems, plus he went a step further and talked to Tanner about his entire brewing process. During this consultation Victor was able to identify that Tanner's chiller compressor was running constantly, wasting electricity. Victor came up with a plan where Tanner could use city water to cool down the wort as a first step in decreasing the chiller compressor runtime. In addition, a new heat exchanger plate pack was recommended that would be much more efficient in Tanner's brewery than the 15-year old pack he was currently using.

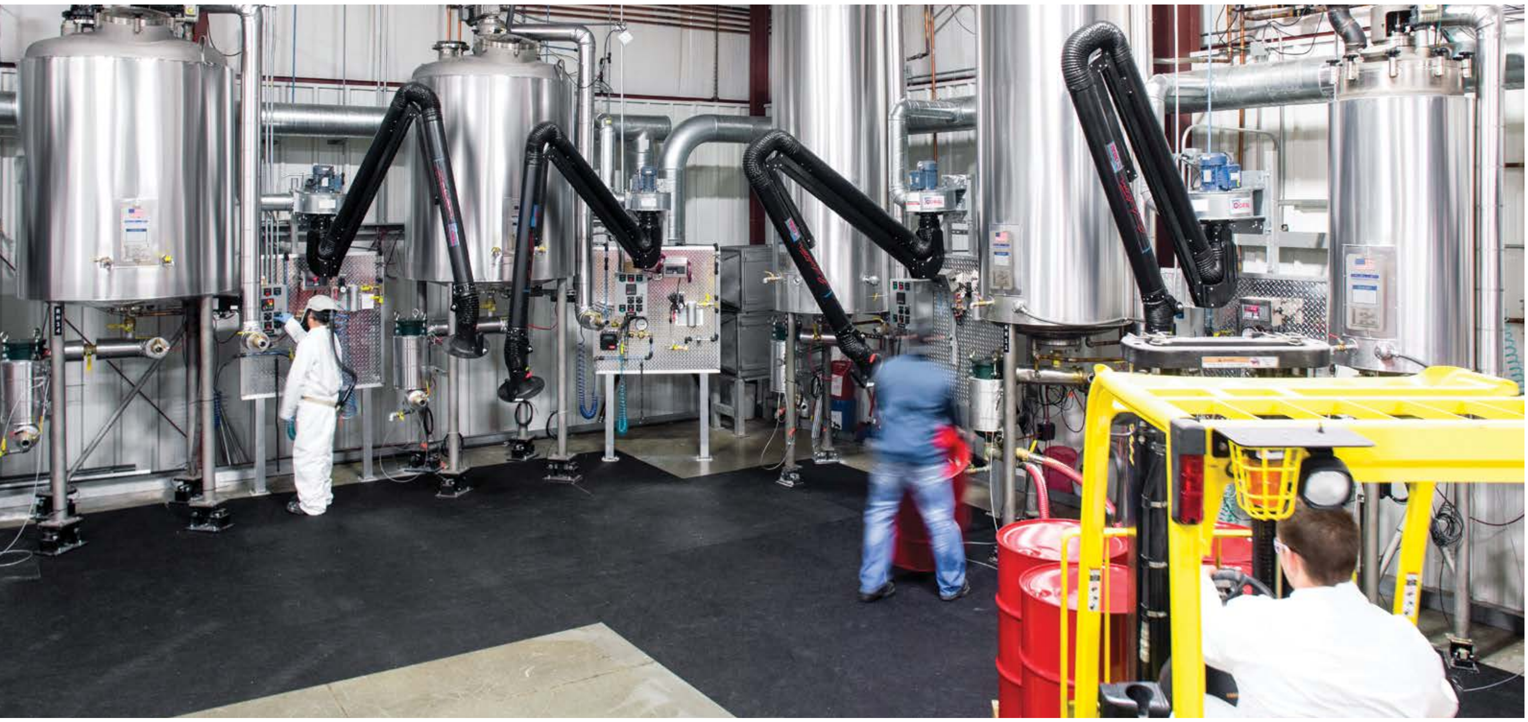
"I was appreciative they called and talked me through some energy efficiency options that I wasn't even aware of," said Tanner. "Everything worked the way Mueller said it would and I was able to knock out my brewing process 20% faster than before all while keeping the glycol cooler and the hot water hotter."

Tanner expects the energy savings to continue to add up over the lifetime usage of his upgraded cooling system, thanks to the advice and the new plate pack from Paul Mueller Company. Cheers!

To hear more of Tanner's story go to: http://academy.paulmueller.com/why-a-heat-transfer-consultation-can-help-your-business

A Chemical Mixing Mystery

How a $50 Repair Saved Thousands



"As a company, we are fortunate to have customers like Chemline trust our team to come up with solutions to tough problems," said Paul Mueller Company Project Manager Lori Steinbach. "Everyone's due diligence saved Chemline downtime and money, and gave our team a problem to solve and we love doing that!"

As one of North America's largest privately held manufacturers of polyurethane resin technologies, Chemline in St. Louis, Missouri, is growing at a record pace. When a routine chemical reactor began producing unexpected results, the hard-driving employees needed a solution fast.

"Like most manufacturers, we are on constant deadlines with our customers and we don't have time for equipment problems," said Kevin McCullough, Vice President of Operations for Chemline.

Chemline has purchased high-end/premium reactors from Paul Mueller Company in the past; the Springfield, Missouri, equipment manufacturer is well-known for having reliable products and service expertise.

Chemline recently purchased four more reactors for their process of producing high-performance, urethane pre-polymers. The difference in the equipment was that two of the four reactors would be a slightly different design than what Chemline ordered before. The new reactors arrived in 2016 and were put right to work.

"The first couple of batches in the newly designed reactors processed fine; however, we eventually encountered a problem batch that wasn't behaving properly, suggesting the product was stratifying," said Kevin.

"They clearly added value beyond the machine."

KEVIN MCCULLOUGH
VP OPERATIONS, CHEMLINE

Even in a world of instant "Googled" solutions, the fix Chemline needed was not a simple online search. The manufacturing process involved adding a number of raw materials to the reactor while mixing. Some of the raw materials are room temperature and some must be heated before adding. The problem batch indicated materials were not blending uniformly, causing stratification in the reactor.

"In an effort to resolve the problem we contacted another company that specialized in agitation methods and they convinced some members of our team that the agitators in the new reactors were not correct. They said we needed a new agitator priced in the tens of thousands of dollars," said Kevin.

So, he contacted Lori and explained the problem. Kevin said they were considering buying the new agitator recommended by the other company. Lori was confident in the reactor's engineering and pulled the team together on the call to see what they could do to resolve the issue.

"I always feel like they're on my side."

"We spent almost two hours on that call talking through every possible option. The Mueller team worked the whole process backwards and took the mystery out of the problem," said Kevin.

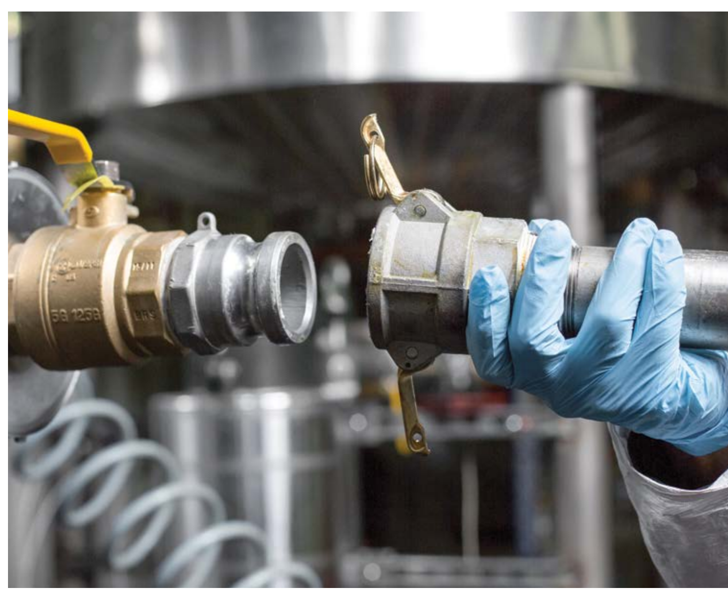
Lori's team determined one of the heated ingredients was cooling just enough to adhere to the pipe walls as it moved through the charge line. The reactor was not getting the full amount of the ingredient and Chemline was not getting the expected result. It was a big relief to find out the issue had nothing to do with agitation; the solution, it turns out, was a quick one.

The quick solution was a $50 pipe wrap and heating element to keep all of the ingredients warm and moving. Simple. A new agitator would have cost tens of thousands of dollars and created an extended delay.

"Vendors often say they add value in the way of customer service, but Paul Mueller Company took that a step further. They provided something beyond the original purchase, they provided their expertise in the form of consulting and a solution to our process problem," said Kevin. "They clearly added value beyond the machine."

Kevin said Chemline has processed many batches since the simple but elusive fix, and it is working perfectly.

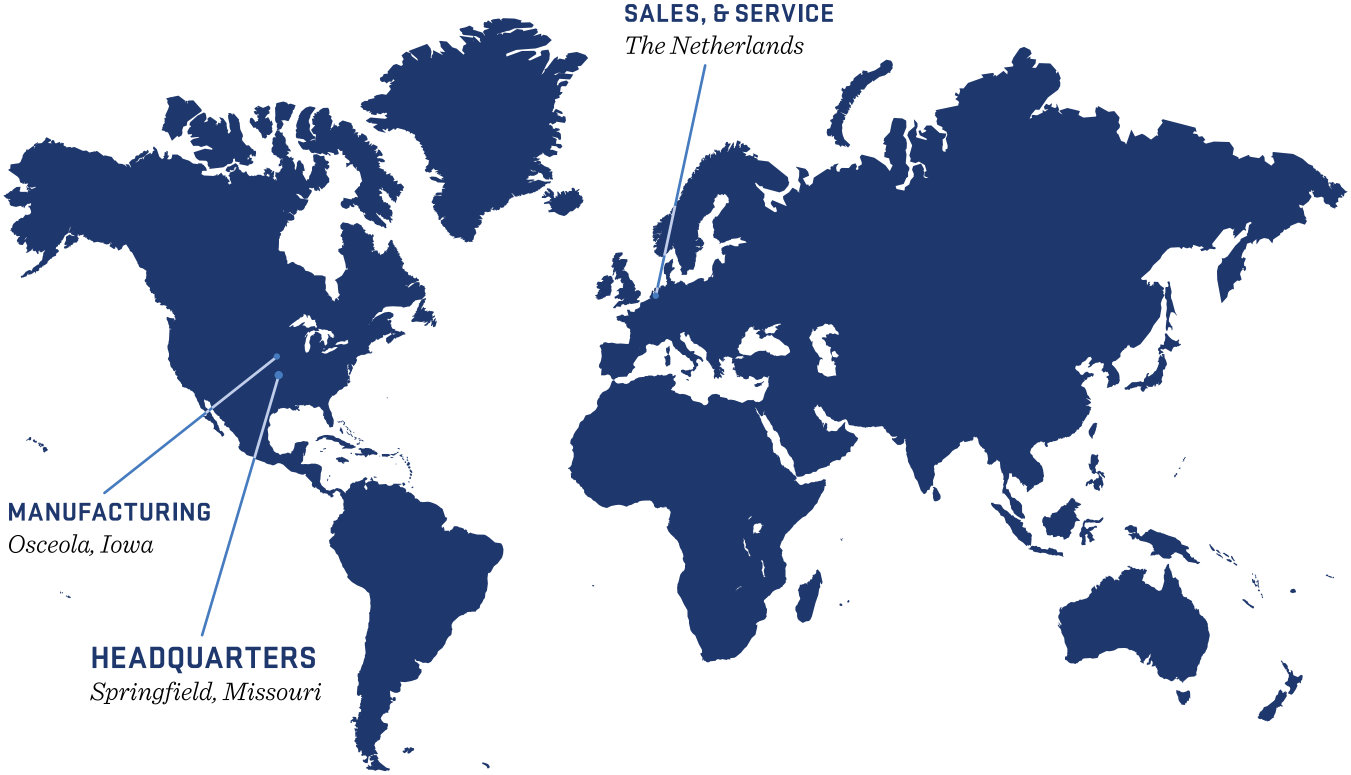
"We haven't generated any non-conforming material since," said Kevin. "I recommend Paul Mueller Company to other companies all the time. I always feel like they're on my side."



PAUL MUELLER COMPANY

PAUL MUELLER, OUR FOUNDER

At Paul Mueller Company, we are united by a belief that the only quality that matters is quality that works for life. With every piece of processing equipment we build, our goal is to have lasting impact. This collective vision has led us from a small sheet metal shop to a global supplier of heating, cooling, processing, and storage solutions. Our equipment allows farmers, brewers, and engineers to keep their products fresh and their inventory strong. Whether our equipment preserves milk in rural areas or helps manufacture medicine with broad health benefits, we are making an impact across the globe.



1-800-MUELLER | WWW.PAULMUELLER.COM