Spaces

2017 PAUL MUELLER COMPANY ANNUAL REPORT

MUELLER

Dedicated *Spaces*

At Paul Mueller Company, there are spaces where we create, spaces where we design and build, and spaces where we collaborate and communicate. When growth happens, spaces change.

Local Alderwoman Marieke Frank, Paul Mueller Company President David Moore, and Netherlands General Manager Wytze Tjepkema reveal the design of the new Groenlo building. A full rendering is shown below.

On the cover: One of our Dutch co-workers, Nardo Ahlte, looks at his future workspace through a virtual reality viewer at the Groenlo groundbreaking.

Co-Worker *Spaces*

On April 9, 2018, our Dutch colleagues will have their first official working day in a beautiful new facility in Groenlo, unifying our previous four Netherlands spaces onto a single campus. Now under one roof, the new space brings together the value of the people and spaces left behind in Lichtenvoorde, Assen, and Wesepe, allowing Paul Mueller Company to build an increased number of vessels and service our customers' needs more completely. It will also bring three working cultures together for a stronger, healthier, unified space to grow and thrive in for decades to come.

FINANCIAL HIGHLIGHTS

Operating Results for the Year

Amounts in thousands, except for share data and ratios.	2017	2016
Net Sales	$ 167,957	$ 168,021
Income (Loss) Before Taxes	3,347	(3,243)
Provision (Benefit) for Income Taxes	5,673	(962)
Net Income (Loss)	$ (2,326)	$ (2,281)
Earnings (Loss) Per Common Share:		
Basic	$ (1.94)	$ (1.88)
Diluted	$ (1.94)	$ (1.88)

Year-End Position

	2017	2016
Total Assets	$ 139,894	$ 104,665
Working Capital	$ 12,621	$ 7,538
Current Ratio	1.25	1.20
Shareholders' Investment	$ 27,981	$ 30,466
Book Value Per Share	$ 23.39	$ 25.39
Common Shares Outstanding	1,196,261	1,200,021
Backlog – United States (Unaudited)	$ 70,198	$ 35,764
Backlog – The Netherlands (Unaudited)	$ 23,845	$ 8,477

CORPORATE PROFILE

Paul Mueller Company, Inc. and Subsidiaries

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

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

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

Animal Health	Chemical	Food	Industrial Construction	Pharmaceutical
Beverage	Dairy Farm	Heat Transfer	Oil and Gas	Tank Fabrication
Brewing	Dairy Processing	HVAC	Personal Care	Wine

Business Segments

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

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.

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

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

Fellow Shareholders:

The past year was a time of significant change for Paul Mueller Company. Revenue ($168 million) and the net loss ($2.3 million) were nearly unchanged for 2017 as compared to 2016. While our year-over-year results are similar, there were large changes in performance throughout the company, the backlog more than doubled, and a significant consolidation of operations is underway in the Netherlands.

Net income in 2017 was reduced by approximately $4.2 million due to the recent tax reform in the United States and by $2 million in non-recurring costs related to the consolidation in the Netherlands, such as severance, loss on sale of assets, and lease terminations. The 2016 result was similarly reduced by $4.2 million due to the settlement of part of the company's pension plans in the United States.

Excluding these effects, earnings before tax in the United States would have been $6.1 million, an increase of $4.9 million over 2016. In the Netherlands, earnings before tax would have been a loss of $0.9 million, a decrease of $3.0 million compared to 2016. During 2017, the backlog grew by $50 million to $94 million, an increase of 113%, consisting of increases of 96% in the United States and 181% in the Netherlands.

The improvement in the United States was driven by the performance of the Dairy Farm Equipment group in 2017 and the discontinuation of the tank trailer product line in 2016. Backlog increased in nearly all the product lines in the United States, led by increases in BioPharm, Dairy Farm Equipment, and PyroPure®. Dairy Farm Equipment continues to experience strong market conditions in Canada, as mentioned in our last quarterly report. In response, we have further increased production in our new milk cooler production line in Springfield and have begun to ship coolers for Canada from our Lichtenvoorde facility.

The decrease in performance in the Netherlands was related to lower sales of dairy farm products. The market for milk coolers in the Netherlands is beginning to improve. Regulation of the farms has moved from a milk quota system to a phosphate quota system regulating animal waste on the farms. After a period of regulatory uncertainty, farmers are beginning to understand how they can trade phosphate quotas when the size of their farms change. Milk cooler backlog in the Netherlands at the beginning of 2018 is 40% higher than a year earlier. The remainder of the Netherlands backlog increase came from heat transfer products sold by DEG Engineering, the German subsidiary acquired in 2016.

On March 2, 2018, we conducted the final inspections of our new facility in Groenlo, the Netherlands, and accepted possession from the construction company. For the past nine months we have been offering settlements to coworkers who have chosen not to move to our new location, replacing some of them with staff in the Groenlo area. We expect our smaller team to begin working together in the new building on April 9, 2018. We are pleased with the timing and costs of the project so far and will celebrate a formal opening with the public in Groenlo on June 1, 2018.

In March of 2016, we announced a share repurchase plan. Since then, we have acquired 40,939 shares. We continue to stand ready to repurchase shares at good opportunities. Our repurchase activities have slowed based on our performance, opportunities to spend cash consolidating our Dutch operations, making improvements to our production equipment, and the rise of share prices during this period.

Finally, on January 31, 2018, we published a new website for the company. Our marketing and sales people tackled the project strategically and energetically, and the results are showing increased organic traffic and online requests for quotes. At the heart of the improvements are foundational changes to our branding, selling, and marketing strategies. The effort represents significant research, both qualitative and quantitative, to better understand our customers and their unique needs. This is impacting our marketing messaging and methods globally, across product lines, and throughout all the markets we serve.

We are encouraged by our very high backlog, and we are busy making operational improvements in response, such as upgrading some production equipment and increasing collaboration between the United States and the Netherlands. At the same time, we are keeping a focus on the marketing work that will be useful when orders are not so easy to come by. We encourage you to see for yourself the change in how the company appears to our customers at http://www.paulmueller.com/.

Thank you,

David Moore
President and CEO

March 16, 2018

Consolidated Statements of Operations for the Years Ended December 31, 2017, 2016, and 2015

Amounts in thousands, except for share data.	2017	2016	2015
Net Sales	$ 167,957	$ 168,021	$ 178,595
Cost of Sales	118,987	123,291	126,362
Gross profit	48,970	44,730	52,233
Selling, General, and Administrative Expenses	43,110	47,888	39,035
Operating income (loss)	5,860	(3,158)	13,198
Other Income (Expense):			
Interest income	7	–	–
Interest expense	(330)	(294)	(362)
Other, net	(2,190)	209	(223)
Total Other Income (Expense)	(2,513)	(85)	(585)
Income (loss) before provision (benefit) for income taxes	3,347	(3,243)	12,613
Provision (Benefit) for Income Taxes	5,673	(962)	4,009
Net Income (Loss)	$ (2,326)	$ (2,281)	$ 8,604
Earnings (Loss) Per Common Share:			
Basic	$ (1.94)	$ (1.88)	$ 6.97
Diluted	$ (1.94)	$ (1.88)	$ 6.95

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

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2017, 2016, and 2015

Amounts in thousands, except for share data.	2017	2016	2015
Net Income (Loss)	$ (2,326)	$ (2,281)	$ 8,604
Other Comprehensive Income (Loss), Net of Tax:			
Foreign currency translation adjustment	$ 4,061	$ (1,146)	$ (2,774)
Change in pension liability	(4,121)	3,238	1,744
Amortization of de-designated hedges	3	21	26
Comprehensive Income (Loss)	$ (2,383)	$ (168)	$ 7,600

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

Consolidated Balance Sheets for the Years Ended December 31, 2017 and 2016

Amounts in thousands, except for share data.	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,571	$ 357
Accounts receivable, less reserve for doubtful accounts of $558 for 2017 and $394 for 2016	22,680	18,084
Costs and estimated earnings in excess of billings	77	173
Inventories: Raw materials and components	10,752	6,361
Work-in-process	12,540	4,843
Finished goods	7,788	12,922
	31,080	24,126
Prepayments	2,442	1,983
Total current assets	62,850	44,723
Property, Plant, and Equipment:		
Land and land improvements	5,328	5,474
Buildings	17,886	18,083
Fabrication equipment	86,377	87,161
Transportation, office, and other equipment	17,722	20,288
Construction-in-progress	20,571	489
	147,884	131,495
Less: Accumulated depreciation	(96,298)	(97,950)
	51,586	33,545
Goodwill	15,195	13,554
Deferred Taxes	9,474	11,878
Other Assets	789	965
Total Assets	$ 139,894	$ 104,665
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 2,717	$ 7,859
Current maturities of long-term debt	1,304	384
Accounts payable	14,242	8,165
Accrued expenses: Payroll and benefits	5,887	4,252
Vacations	1,058	1,195
Other	5,617	2,044
Advance billings	17,679	12,235
Billings in excess of costs and estimated earnings	1,725	1,051
Total current liabilities	50,229	37,185
Long-Term Pension Liabilities	34,766	31,628
Long-Term Debt, Less Current Maturities	23,562	4,558
Other Long-Term Liabilities	3,356	828
Total Liabilities	111,913	74,199
Commitments and Contingencies		
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,507,481 shares	1,508	1,508
Paid-in surplus	9,708	9,708
Retained earnings	59,256	61,582
	70,472	72,798
Less: Treasury stock – 311,220 shares for 2017 and 307,460 shares for 2016, at cost	(6,329)	(6,227)
Accumulated other comprehensive (loss)	(36,162)	(36,105)
Total Shareholders' Investment	27,981	30,466
Total Liabilities and Shareholders' Investment	$ 139,894	$ 104,665

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

Consolidated Statements of Shareholders' Investment for the Years Ended December 31, 2017, 2016, and 2015

Amounts in thousands.	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance – December 31, 2014	$ 1,508	$ 9,695	$ 55,259	$ (5,109)	$ (37,214)	$ 24,139
Add (Deduct):						
Net income	–	–	8,604	–	–	8,604
Other comprehensive (loss), net of tax	–	–	–	–	(1,004)	(1,004)
Treasury stock acquisition	–	–	–	(5)	–	(5)
Deferred compensation amortization	–	13	–	–	–	13
Balance – December 31, 2015	1,508	9,708	63,863	(5,114)	(38,218)	31,747
Add (Deduct):						
Net (loss)	–	–	(2,281)	–	–	(2,281)
Other comprehensive income, net of tax	–	–	–	–	2,113	2,113
Treasury stock acquisition	–	–	–	(1,113)	–	(1,113)
Balance – December 31, 2016	1,508	9,708	61,582	(6,227)	(36,105)	30,466
Add (Deduct):						
Net (loss)	–	–	(2,326)	–	–	(2,326)
Other comprehensive (loss), net of tax	–	–	–	–	(57)	(57)
Treasury stock acquisition	–	–	–	(102)	–	(102)
Balance – December 31, 2017	$ 1,508	$ 9,708	$ 59,256	$ (6,329)	$ (36,162)	$ 27,981

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

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016, and 2015

Amounts in thousands.	2017	2016	2015
Cash Flows from Operating Activities:			
Net income (loss)	$ (2,326)	$ (2,281)	$ 8,604
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Pension contributions (greater) less than expense	(984)	2,339	(1,734)
Bad debt expense (recovery)	28	(330)	403
Depreciation and amortization	5,747	6,179	5,665
(Gain) loss on sales of equipment	(46)	(22)	22
Deferred tax (benefit) expense	5,389	(1,256)	2,462
Deferred tax valuation allowance – change	–	–	(7)
Other	(20)	(89)	(83)
Changes in assets and liabilities, net of effect of acquisitions –			
(Increase) decrease in accounts and notes receivable	(4,405)	4,491	(413)
Decrease (increase) in costs and estimated earnings in excess of billings	97	(121)	(30)
(Increase) decrease in inventories	(6,953)	7,361	(6,769)
(Increase) decrease in prepayments	(375)	285	868
(Increase) decrease in other assets	23	1	408
(Increase) decrease in deferred taxes	(1,315)	1,893	905
Increase (decrease) in accounts payable	5,797	(1,937)	3,466
Increase (decrease) in other accrued expenses	5,119	(2,469)	(5,326)
Increase (decrease) in advance billings	5,444	(1,920)	5,441
Increase (decrease) in billings in excess of costs and estimated earnings	674	(1,507)	1,952
Increase (decrease) in long-term liabilities	394	94	(156)
Net cash provided by operating activities	12,288	10,711	15,678
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sales of equipment	172	65	79
Additions to property, plant, and equipment	(23,750)	(4,284)	(8,767)
Acquisition of DEG Engineering GmbH	–	(2,606)	–
Net cash (required) by investing activities	(23,578)	(6,825)	(8,688)
Cash Flow Provisions (Requirements) from Financing Activities:			
(Repayment) proceeds of short-term borrowings	(4,747)	(2,448)	(8,624)
Long-term debt proceeds	19,255	–	3,760
Principal payments on long-term debt	(251)	(414)	(3,381)
Treasury stock acquisitions	(102)	(1,113)	(5)
Net cash provided (required) by financing activities	14,155	(3,975)	(8,250)
Effect of Exchange Rate Changes	3,349	(99)	403
Net Increase (Decrease) in Cash and Cash Equivalents	6,214	(188)	(857)
Cash and Cash Equivalents at Beginning of Year	357	545	1,402
Cash and Cash Equivalents at End of Year	$ 6,571	$ 357	$ 545

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, chemical, pharmaceutical, and other industries, as well as the dairy farm market. The Company also provides field fabrication, service, repair, construction, and transportation 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.

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, 2017 and 2016, were as follows (in thousands):

	2017	2016
Costs incurred on uncompleted contracts	$ 17,473	$ 9,784
Estimated earnings	1,588	1,703
	$ 19,061	$ 11,487
Less: Billings to date	20,709	12,358
	$ (1,648)	$ (871)

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2017 and 2016, under the following captions were (in thousands):

	2017	2016
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 77	$ 173
Income earned not invoiced included in accounts receivable	–	7
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,725)	(1,051)
	$ (1,648)	$ (871)

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

Contracts with some customers provide for a portion of the sales amount to be retained by the customer for a period of time after completion of the contract. As of December 31, 2017, no retainages were included in accounts receivable. Retainages included in accounts receivable as of December 31, 2016, were $73,000.

Shipping fees charged are included in revenue, whereas sales, use, and other taxes collected from customers are excluded from revenue. Outbound shipping and handling costs are included in cost of sales.

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 consolidated 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, 2017, and 2016, the amounts in advanced billings were $17,679,000 and $12,235,000, 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 $11,171,000 and $10,474,000 higher than those reported as of December 31, 2017 and 2016, respectively.

Inventories of Mueller B.V. were $18,243,000 and $12,857,000 as of December 31, 2017 and 2016, 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, 2017 and 2016.

The pre-tax results for the twelve months ended December 31, 2017 and 2016, were unfavorably affected by $697,000 and $500,000 increases in the LIFO reserve, respectively.

Property, Plant, and Equipment – The Company provides for depreciation expense using principally the double-declining-balance method for new items and the straight-line method for used items. Depreciation expense was $5,506,000, $5,927,000, and $5,398,000 for the years ended December 31, 2017, 2016, and 2015, 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

Included in land and buildings as of December 31, 2017, is $4,917,000 for the production facility in Lichtenvoorde, the Netherlands. This property is under contract to be sold when the new production facility opens in Groenlo, the Netherlands.

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 $468,000 during 2017, $591,000 during 2016, and $382,000 during 2015.

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. Based on the contract to sell the production facility in Lichtenvoorde, the Netherlands, land and buildings were impaired $1,090,000 as of December 31, 2017. There were no impairments as of December 31, 2016.

Earnings Per Common Share – The following table sets forth the computation of basic and diluted earnings per common share (in thousands, except for share data):

	2017	2016	2015
Net income (loss)	$ (2,326)	$ (2,281)	$ 8,604
Shares for basic earnings per common share –			
Weighted-average shares outstanding	1,196,261	1,211,093	1,235,328
Dilutive effect of restricted stock	–	–	1,872
Shares for diluted earnings per common share –			
Adjusted weighted-average shares outstanding	1,196,261	1,211,093	1,237,200
Earnings (loss) per common share:			
Basic	$ (1.94)	$ (1.88)	$ 6.97
Diluted	$ (1.94)	$ (1.88)	$ 6.95

Comprehensive Income (Loss) – The components of other comprehensive income (loss) for the years ended December 31, 2017, 2016, and 2015, were as follows (in thousands):

	2017	2016	2015
Foreign currency translation adjustment	$ 4,061	$ (1,146)	$ (2,774)
Tax	–	–	–
Foreign currency translation adjustment, net of tax	4,061	(1,146)	(2,774)
Change in pension liability	(5,436)	5,131	2,772
Tax	1,315	(1,893)	(1,028)
Change in pension liability, net of tax	(4,121)	3,238	1,744
Amortization on de-designated hedges	3	21	26
Other comprehensive income (loss)	$ (57)	$ 2,113	$ (1,004)

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, 2017, 2016, and 2015, were as follows (in thousands):

	2017	2016	2015
Interest payments	$ 359	$ 482	$ 521
Income tax payments	$ 181	$ 772	$ 1,152
Non-cash activities related to investing and financing activities:			
Change in equity related to swap position	$ 3	$ 21	$ 26

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

	Shares	
	Common	Treasury
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
Treasury stock acquisition	–	3,760
Balance – December 31, 2017	1,507,481	311,220

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 2017, 2016, and 2015, 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, 2017, 2016, or 2015.

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, 2017, 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, 2017, no provision has been made for U.S. federal deferred income taxes on $25,331,000 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 Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, as amended (Topic 606), which will change the way we recognize revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB approved a one-year deferral of the effective date of the standard to 2018 for public companies, with an option that would permit companies to adopt the standard in 2017. Further amendments and technical corrections were made to the standard during 2016.

The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

We will adopt the requirements of the new standard effective January 1, 2018, by recognizing the net cumulative effect of initially applying the new standard as an increase to the opening balance of retained earnings. We expect this adjustment to be less than fifty thousand dollars. The impacts of adoption primarily relate to certain contracts that were previously accounted for on a units of delivery basis are now recorded over time using labor hour percentage of completion methodology.

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. 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. The adoption of this standard as of January 1, 2017, did not have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02 – "Leases (Topic 842)." The objective of ASU 2016-02 is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous generally accepted accounting principles. 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 18, 2008, the Company purchased all of the outstanding shares of Paltrok Beheer B.V. ("Paltrok"). 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 paid in full, the Share Purchase Agreement (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, 2017, 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 $2,307,000 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 (in thousands):

	Paltrok	MEKO	DEG
Current assets	$ 11,016	$ 17,980	$ –
Property and equipment	11,057	20,261	–
Intangible asset backlog	1,227	752	–
Other intangible assets	–	4,578	191
Goodwill	3,099	5,926	2,307
Other assets	434	465	13
Total assets acquired	$ 26,833	$ 49,962	$ 2,511
Current liabilities	$ 6,485	$ 20,985	$ –
Long-term debt	4,110	13,237	–
Deferred taxes	1,579	1,276	–
Other liabilities	538	444	–
Total liabilities assumed	$ 12,712	$ 35,942	$ –
Purchase price	$ 14,121	$ 14,020	$ 2,511

(3) Goodwill and Intangible Assets:

Intangible assets as of December 31, 2017 and 2016, consisted of the following and are included in other assets on the Consolidated Balance Sheets (in thousands):

	Brand Names	Patents	Customer Relationships	Total
Balance as of December 31, 2015	$ –	$ –	$ 469	$ 469
Amortization 2016	–	–	(252)	(252)
Foreign currency fluctuation	–	–	(4)	(4)
Acquisition of DEG	52	139	–	191
Balance as of December 31, 2016	$ 52	$ 139	$ 213	$ 404
Amortization 2017	(36)	(5)	(200)	(241)
Foreign currency fluctuation	5	20	16	41
Activated Patent Costs at DEG	–	14	–	14
Balance as of December 31, 2017	$ 21	$ 168	$ 29	$ 218

Average amortization periods for brand names and customer relationships are six and nine years, respectively. Aggregate amortization of intangible assets was $241,000, $252,000, and $254,000 for the years ended December 31, 2017, 2016, and 2015, respectively. Estimated aggregate amortization for the next five years and thereafter are as follows (in thousands):

2018	$ 72
2019	44
2020	24
2021	9
2022	9
Thereafter	60
	$ 218

The changes in the carrying amount of goodwill for the years ended December 31, 2017, 2016, and 2015, were as follows (in thousands):

Balance as of December 31, 2014	$ 12,734
Foreign currency fluctuation	(1,137)
Balance as of December 31, 2015	$ 11,597
Acquisition of DEG	2,307
Foreign currency fluctuation	(350)
Balance as of December 31, 2016	$ 13,554
Foreign currency fluctuation	1,641
Balance as of December 31, 2017	$ 15,195

(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 401(k) plan provides for a match of employees' contributions up to a specified limit. The assets of the 401(k) 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 $850,000 for 2017, $812,000 for 2016, and $834,000 for 2015.

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. The Company is 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.

The Company's participation in the plan for the year ended December 31, 2017, is outlined in the following table. 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 2017	Pension Protection Act Zone Status 2016	FIP/RP Status Pending/ Consolidated	Company Contributions 2017	Company Contributions 2016	Company Contributions 2015	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
Boilermaker-Blacksmith National Pension Trust	48-6168020/001	Red	Yellow	Yes	$ 391,375	$ 395,373	$ 436,552	No	Described Below[(1)]

(1) The Company's 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 $1,262,000 for 2017, $1,238,000 for 2016, and $1,513,000 for 2015.

Total domestic pension expense under the plans was $1,787,000 for 2017, $8,407,000 for 2016, and $1,255,000 for 2015. The required minimum contributions to be made in 2018 are estimated to be $4,976,000. 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 (in thousands):

	2017	2016
Change in projected benefit obligation –		
Benefit obligation as of beginning of year	$ 89,509	$ 101,457
Interest cost	3,955	4,549
Settlements	–	(13,830)
Actuarial (gain) loss	11,409	2,177
Benefits paid and expenses	(4,965)	(4,844)
Benefit obligation as of end of year	$ 99,908	$ 89,509
Change in plan assets –		
Fair value of plan assets as of beginning of year	$ 57,881	$ 68,930
Actual return on plan assets	8,140	3,450
Employer contributions	4,086	4,175
Settlements	–	(13,830)
Benefits paid and expenses	(4,966)	(4,844)
Fair value of plan assets as of end of year	$ 65,141	$ 57,881
Funded status	$ (34,767)	$ (31,628)
Funded status as of end of year	$ (34,767)	$ (31,628)

Components of pension expense for the three years were (in thousands):

	2017	2016	2015
Interest cost	$ 3,955	$ 4,549	$ 4,735
Expected return on plan assets	(3,561)	(4,304)	(4,889)
Amortization of prior service cost	1,393	1,441	1,409
Net loss due to settlements	–	6,721	–
Net periodic pension expense	$ 1,787	$ 8,407	$ 1,255

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

	2017	2016
Projected benefit obligations	$ 99,908	$ 89,509
Accumulated benefit obligations	$ 99,908	$ 89,509
Fair value of plan assets	$ 65,141	$ 57,881

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

	2017	2016
Discount rate	3.50%	4.54%
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:

	2017	2016	2015
Discount rate	4.55%	4.63%	4.42%
Expected long-term return on plan assets	6.40%	6.67%	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 decreased from 4.63% for 2016 to 4.55% for 2017. The effect of the rate decrease was to decrease pension expense by $58,377 for 2017. 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 6.40% for 2017 and 6.67% for 2016.

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:

	2017	2016
Asset category:		
Equities	64%	58%
Fixed income	35%	40%
Other	1%	2%
	100%	100%

The long-term asset allocation on average will approximate 64% in equities and 36% 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, 2017 and 2016 (in thousands):

Asset Category	Fair Value at 12-31-17	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 723	$ 723[a]	$ –	$ –
Equity securities	41,427	41,427[b]	–	–
Fixed income securities	22,991	–	22,991[c]	–
Total plan assets	$ 65,141	$ 42,150	$ 22,991	$ –

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	$ 1,015[a]	$ –	$ –
Equity securities	34,024	34,024[b]	–	–
Fixed income securities	22,842	– [c]	22,842[c]	–
Total plan assets	$ 57,881	$ 35,039	$ 22,842	$ –

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

(b) The assets consist primarily of exchange traded funds 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 that 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 (in thousands):

2018	$ 5,563
2019	5,249
2020	5,365
2021	5,401
2022	5,504
2023 through 2027	28,370
	$ 55,452

Included in accumulated other comprehensive loss as of December 31, 2017, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $47,899,000 ($30,301,000, net of tax). 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). 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, 2018, is $1,662,000.

(5) Income Taxes:

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

	2017	2016	2015
Current tax expense	$ 284	$ 294	$ 1,554
Deferred, net	5,389	(1,256)	2,462
Valuation allowance – change	–	–	(7)
	$ 5,673	$ (962)	$ 4,009

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, 2017 and 2016, is shown below (in thousands):

	2017	2016
Deferred tax assets:		
Worker's compensation	$ 108	$ 153
Vacation	212	366
Warranty	83	107
Doubtful accounts	61	86
Pensions	7,970	10,984
Inventory	196	279
Tax attribute carryforward	2,134	2,874
Other	368	1,219
Net deferred tax assets	$ 11,132	$ 16,068
Deferred tax liabilities:		
Intangibles	$ (1,482)	$ (1,051)
Property, plant, and equipment	(1,526)	(2,332)
Other liabilities	(504)	(807)
Net deferred tax liabilities	$ (3,512)	$ (4,190)
Net deferred tax assets	$ 7,620	$ 11,878

As of December 31, 2017, net deferred tax assets were $11,132,000; and net deferred tax liabilities were $3,512,000. As of December 31, 2016, net deferred tax assets were $16,068,000; net deferred tax liabilities were $4,190,000. On the accompanying Consolidated Balance Sheets, domestic net deferred tax assets are included as non-current assets, and foreign deferred tax liabilities are included in other long-term liabilities as appropriate. Income taxes receivable (payable) at December 31, 2017 and 2016, were $901,000 and $444,000, respectively, and are included in accounts receivable on the accompanying Consolidated Balance Sheets. The 2017 income tax receivable balance includes the current portion of the transition tax payable. For balance sheet presentation, the deferred tax assets and liabilities are required to be netted by jurisdiction, as shown below (in thousands):

Deferred tax asset, United States	$ 11,132
Deferred tax liability, United States	(1,658)
Net deferred tax asset, United States	$ 9,474
Net deferred tax liabilities, the Netherlands	$ 1,854

The Company's deferred income tax assets include certain future tax benefits. As of December 31, 2017, the tax effected deferred tax assets included $333,000 related to state net operating losses and none related to federal net operating losses, which expire between the years 2018 and 2034. Tax credits as of December 31, 2017, of $1,438,000 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, 2017, follows (in thousands):

	2017	Rates	2016	Rates	2015	Rates
Statutory federal income tax expense	$ 1,138	34.00%	$ (1,103)	34.00%	$ 4,288	34.00%
Increase (decrease) in taxes resulting from:						
Tax credits	(86)	(2.57%)	(103)	3.17%	(824)	(6.53%)
State tax, net of federal benefit	172	5.16%	(141)	4.35%	238	1.89%
Net unrecognized tax positions	(178)	(5.32%)	(31)	.96%	14	.11%
International taxes	347	10.37%	(193)	5.95%	(498)	(3.95%)
Deferred rate change	46	1.37%	45	(1.39%)	599	4.75%
Tax reform rate change	3,251	97.15%	–	–	–	–
Transition tax	920	27.49%	–	–	–	–
Permanent differences	40	1.20%	53	(1.63%)	51	.40%
Other, net	23	.66%	511	(15.76%)	148	1.17%
Valuation allowance change	–	–	–	–	(7)	(.05%)
	$ 5,673	169.51%	$ (962)	29.65%	$ 4,009	31.79%

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2017 and 2016, are included in deferred taxes on the accompanying Consolidated Balance Sheets (in thousands):

Balance as of December 31, 2015	$ 660
Additions based on tax positions related to the current year	53
Reductions for tax positions of prior years	(31)
Balance as of December 31, 2016	682
Additions based on tax positions related to the current year	28
Reductions for tax positions of prior years	(290)
Balance as of December 31, 2017	$ 420

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 $420,000 as of December 31, 2017, 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, 2017, 2016, and 2015.

The relationship of the actual income tax expense to the reported pretax income differs from the federal statutory tax rate primarily due to state income taxes. Additionally in 2017, tax expense of approximately $4,171,000 was recognized due to new United States federal tax legislation under the Tax Cuts and Jobs Act (TCJA) enacted in December 2017. This includes a $920,000 transition tax expense estimate and $3,251,000 tax expense due to the revaluation of the deferred tax asset due to a decrease in the tax rate. In certain cases, the Company has recorded for 2017 a reasonable estimate of the effects of the TCJA, and accordingly such amounts are provisional. Final adjustments, if necessary, will be determined in 2018 and recorded as a measurement period adjustment through 2018 tax expense.

(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, 2017, was 2.70%. As of December 31, 2017, the balance outstanding was zero under the facility. As of December 31, 2016, the balance outstanding was $2,844,000 under the facility.

The Company was in compliance with the borrowing covenant as of December 31, 2017.

In 2017, Mueller B.V.'s operating companies amended the bank borrowing facility to $8,400,000. Borrowings under the facilities are at variable rates of one-month Euribor plus 1.55%. 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 $2,717,000 as of December 31, 2017, and $5,015,000 as of December 31, 2016.

As of December 31, 2017, the Company had long-term notes payable with an outstanding balance of $24,866,000. 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 (in thousands).

	Outstanding Balance 2017	Outstanding Balance 2016	Current Maturities 2017	Current Maturities 2016
Note payable related to intercompany loan. Note matures in 2027 with a variable rate of 30-day LIBOR plus 2.0%. The rate at year end was 3.29%. Payments are made annually.	$ 5,532	$ 4,985	$ –	$ 525
Note payable secured by equipment and certain assets. Note matures in 2027. The rate at year end was .48%. Payments are made quarterly.	305	267	33	29
Note payable related to mortgage loan secured by real estate, fixed assets, accounts receivable, inventory, and insurance proceeds. Note matures in 2038 with a fixed rate of 2.60%. Payments are made quarterly.	9,600	–	360	–
Note payable related to mortgage loan secured by real estate, fixed assets, accounts receivable, inventory, and insurance proceeds. Note matures in 2038 with a variable rate of 1.68%. Payments are made quarterly.	10,348	–	540	–
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 .48%. Payments are made quarterly.	1,500	1,312	120	105
Notes payable related to Mueller B.V. and subsidiaries	27,285	6,564	1,053	659
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 2.99%. Payments are made monthly.	3,113	3,363	251	250
Elimination of intercompany loans	(5,532)	(4,985)	–	(525)
Total notes payable	$ 24,866	$ 4,942	$ 1,304	$ 384

The principal payments of the notes payable as of December 31, 2017, and for future years are listed below (in thousands):

2018	$	1,304
2019		1,304
2020		3,664
2021		1,053
2022		1,053
Thereafter		16,488
	$	24,866

(7) Guarantees:

The Company has two standby letter-of-credit facilities of $5,000,000 and $2,933,000. As of December 31, 2017, there were standby letters of credit totaling $4,292,000 and $2,933,000, 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, 2017 and 2016 (in thousands):

	2017		2016	
Beginning balance	$	1,044	$	1,028
Costs incurred to satisfy warranty claims		(851)		(749)
Aggregate warranty reserves made		1,095		1,003
Aggregate changes to warranty reserves		(111)		(238)
Ending balance	$	1,177	$	1,044

(8) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $2,080,000 and terms exceeding one year. The lease expense for the years ended December 31, 2017, 2016, and 2015, was $1,214,000, $1,142,000, and $1,132,000, respectively. The future minimum lease payments for each of the years subsequent to December 31, 2017, will be (in thousands):

2018	$	1,011
2019		608
2020		283
2021		120
2022		51
2023 and after		7
	$	2,080

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

	2017					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 77,269	$ 78,916	$ 9,065	$ 2,707	$ –	$ 167,957
Depreciation and amortization expense	$ 3,429	$ 1,907	$ 29	$ 83	$ 299	$ 5,747
Income (loss) before income tax	$ 2,920	$ 2,345	$ 286	$ 51	$ (2,255)	$ 3,347
Assets	$ 80,031	$ 36,617	$ 1,811	$ 431	$ 21,004	$ 139,894
Additions to property, plant, and equipment	$ 17,591	$ 5,858	$ 58	$ 54	$ 189	$ 23,750

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

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

Revenues from external customers by product category for the three years ended December 31, 2017, were (in thousands):

	2017	2016	2015
Milk cooling and storage equipment	$ 77,156	$ 79,881	$ 83,874
Process vessels and tanks	80,717	75,988	81,795
Other industrial equipment	10,084	12,152	12,926
	$ 167,957	$ 168,021	$ 178,595

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, 2017, were (in thousands):

	2017	2016	2015
United States	$ 99,588	$ 93,316	$ 98,826
North America (excluding the U.S.)	15,916	10,434	8,768
Asia and the Far East	4,208	5,972	5,479
The Netherlands	19,803	35,309	39,551
EU countries	26,049	17,751	23,746
Other areas	2,393	5,239	2,225
	$ 167,957	$ 168,021	$ 178,595

During 2017, 2016, and 2015, export sales to any one country were not in excess of 10% of consolidated sales.

During 2017, 2016, and 2015, 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, 2017, were (in thousands):

	2017	2016	2015
North America	$ 14,599	$ 15,036	$ 16,052
Asia and the Far East	1,698	2,209	2,421
The Netherlands	50,702	30,258	29,311
	$ 66,999	$ 47,503	$ 47,784

(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 2017, 2016, and 2015.

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, 2017.

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 years ended December 31, 2017 and 2016. Compensation expense recognized for the restricted shares was $13,000 for the year ended December 31, 2015. As of December 31, 2017, 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, 2017, 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, 2017 (in thousands):

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

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	$ –	$ 20
Total	$ –	$ 20	$ –	$ 20

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, 2017, remain in accumulated other comprehensive income (loss) as of the de-designation date. As of December 31, 2017 and 2016, the estimated fair value of the interest rate swaps was a net liability of zero and $20,000, respectively, and was included in other long-term liabilities on the Consolidated Balance Sheets.

(12) Subsequent Events:

Management has evaluated subsequent events through March 16, 2018, the date the financial statements were available to be issued.

On March 2, 2018, Mueller B.V. management conducted the final inspections of the new facility in Groenlo, the Netherlands, and accepted possession from the construction company. The first day of production in the new facility is planned for April 9, 2018.

On March 13, 2018, the bank issued a letter of intent to Mueller B.V. to amend the bank borrowing facility and long-term note agreements as follows: 1) the first Debt to EBITDA loan covenant test and debt service capacity ratio test has moved from June 30, 2018, to December 31, 2018; and 2) the minimum EBITDA test has been adjusted to €4 million at June 30, 2018; €5 million at September 30, 2018, and remains at €6 million on December 31, 2018, and thereafter.

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.

RSM

Independent Auditor's Report

RSM US LLP

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Paul Mueller Company and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), shareholders' investment, and cash flows for the years ended December 31, 2017, 2016, and 2015, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Paul Mueller Company and Subsidiaries as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years ended December 31, 2017, 2016, and 2015 in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City Missouri
March 16, 2018

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Selected Financial Data – Five-Year Summary and Financial Highlights by Quarter (Unaudited) for the Years 2017 and 2016

Selected Financial Data – Five-Year Summary

Amounts in thousands, except for share data, historical exchange rates, and number of employees.

	2017	2016	2015	2014	2013
Net sales	$ 167,957	$ 168,021	$ 178,595	$ 200,713	$ 181,257
Net income (loss)	$ (2,326)	$ (2,281)	$ 8,604	$ 6,877	$ 18,893
Earnings (loss) per common share:					
Basic	$ (1.94)	$ (1.88)	$ 6.97	$ 5.60	$ 15.55
Diluted	$ (1.94)	$ (1.88)	$ 6.95	$ 5.56	$ 15.45
Common shares outstanding	1,196,261	1,200,021	1,237,220	1,237,379	1,237,591
Total assets	$ 139,894	$ 104,665	$ 118,596	$ 120,022	$ 114,271
Long-term debt	$ 23,562	$ 4,558	$ 5,003	$ 1,991	$ 8,776
Shareholders' investment	$ 27,981	$ 30,466	$ 31,747	$ 24,139	$ 31,741
Working capital	$ 12,621	$ 7,538	$ 9,270	$ 4,411	$ 5,615
Book value per common share	$ 23.39	$ 25.39	$ 25.66	$ 19.51	$ 25.65
Average number of employees	928	918	954	976	929
Historical Exchange Rates (Euro to U.S. Dollar):					
Year End	$ 1.20	$ 1.05	$ 1.09	$ 1.22	$ 1.38
Year End Average	$ 1.13	$ 1.11	$ 1.11	$ 1.33	$ 1.33

Financial Highlights by Quarter, Unaudited

Amounts in thousands, except for share data.

	Quarter Ended March 31		Quarter Ended June 30		Quarter Ended September 30		Quarter Ended December 31	
	2017	2016	2017	2016	2017	2016	2017	2016
United States:								
Net sales	$ 27,419	$ 26,857	$ 27,065	$ 27,815	$ 34,897	$ 31,095	$ 30,926	$ 25,262
Gross profit	$ 5,999	$ 5,933	$ 5,454	$ 4,869	$ 8,240	$ 5,017	$ 6,812	$ 3,983
Net income (loss)	$ 527	$ 649	$ 324	$ (639)	$ 2,000	$ (3,243)	$ (2,994)	$ (722)
The Netherlands:								
Net sales	$ 10,253	$ 14,568	$ 12,761	$ 18,021	$ 13,541	$ 13,352	$ 11,607	$ 12,160
Gross profit	$ 4,539	$ 6,351	$ 6,227	$ 7,884	$ 5,759	$ 6,000	$ 5,772	$ 4,573
Net income (loss)	$ (724)	$ 230	$ 313	$ 1,350	$ (191)	$ 62	$ (1,748)	$ (87)
Consolidated:								
Net sales	$ 37,611	$ 41,161	$ 39,630	$ 45,524	$ 48,271	$ 44,116	$ 42,445	$ 37,220
Gross profit	$ 10,594	$ 12,316	$ 11,696	$ 12,804	$ 13,997	$ 10,999	$ 12,683	$ 8,611
Net income (loss)	$ (143)	$ 911	$ 653	$ 762	$ 1,806	$ (3,199)	$ (4,642)	$ (755)
Earnings (loss) per common share:								
Basic	$ (.12)	$ .74	$ .55	$ .63	$ 1.51	$ (2.66)	$ (3.88)	$ (.63)
Diluted	$ (.12)	$ .74	$ .55	$ .63	$ 1.51	$ (2.66)	$ (3.88)	$ (.63)

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 and 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 – Vice President

MICHAEL R. PAYNE – Secretary

PATRICIA K. WEBSTER – Treasurer

MUELLER B.V.

Managing Director

PAUL MUELLER COMPANY

Transfer Agent

COMPUTERSHARE, INC.
250 Royall Street
Canton, MA 02021

Market Information by Quarter

	2017				2016			
	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	$ 30.00	$ 30.25	$ 35.00	$ 40.00	$ 31.00	$ 31.00	$ 30.00	$ 30.00
Low	$ 26.60	$ 27.52	$ 28.52	$ 32.55	$ 23.00	$ 25.90	$ 27.00	$ 26.95

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 2017 and 2016.

Manufacturing *Spaces*

In the United States, Paul Mueller Company revitalized an under-used space to optimize a new partnership with Bioleap, Inc., a Florida corporation that provides services to the renewable fuels industry. Bioleap has developed an energy recovery system that uses waste energy from an ethanol plant's DDGS (distillers dried grains with solubles) dryer system to produce clean, boiler-quality steam. This reduces the amount of steam the plant needs to produce with its boilers, decreasing natural gas usage by at least 15%. Our Temp-Plate® energy banks are a critical component in these energy recovery systems.

When Bioleap asked us to build 10 energy banks with an ongoing demand for more, we knew we had the expertise to do it, and with the project's unique requirements, an opportunity presented itself to manufacture in a new area of the Springfield plant. Through innovation and hard work, our team refreshed and upgraded what was once a catch-all utility area, transforming it into a new production space where we are now on the way to successful completion of the first order. An old space is new again.

We knew we had the expertise to do it.

The Bioleap and Paul Mueller Company teams review the progress of the Temp-Plate energy banks being produced in the revitalized Springfield, Missouri, facility.

Customer *Spaces*

The online spaces where we connect with customers are also going through a transformation. In 2017, we launched a project to give customers the most informative and intuitive online experience possible with our company through that virtual storefront—our website. Paul Mueller Company's website (www.paulmueller.com) came alive in early 2018 and is changing the way we meet and collaborate with our customers. Our online Request for Quote system demands a faster and more nimble response. We are meeting that challenge, and in the process, our collaborations have greater impact.

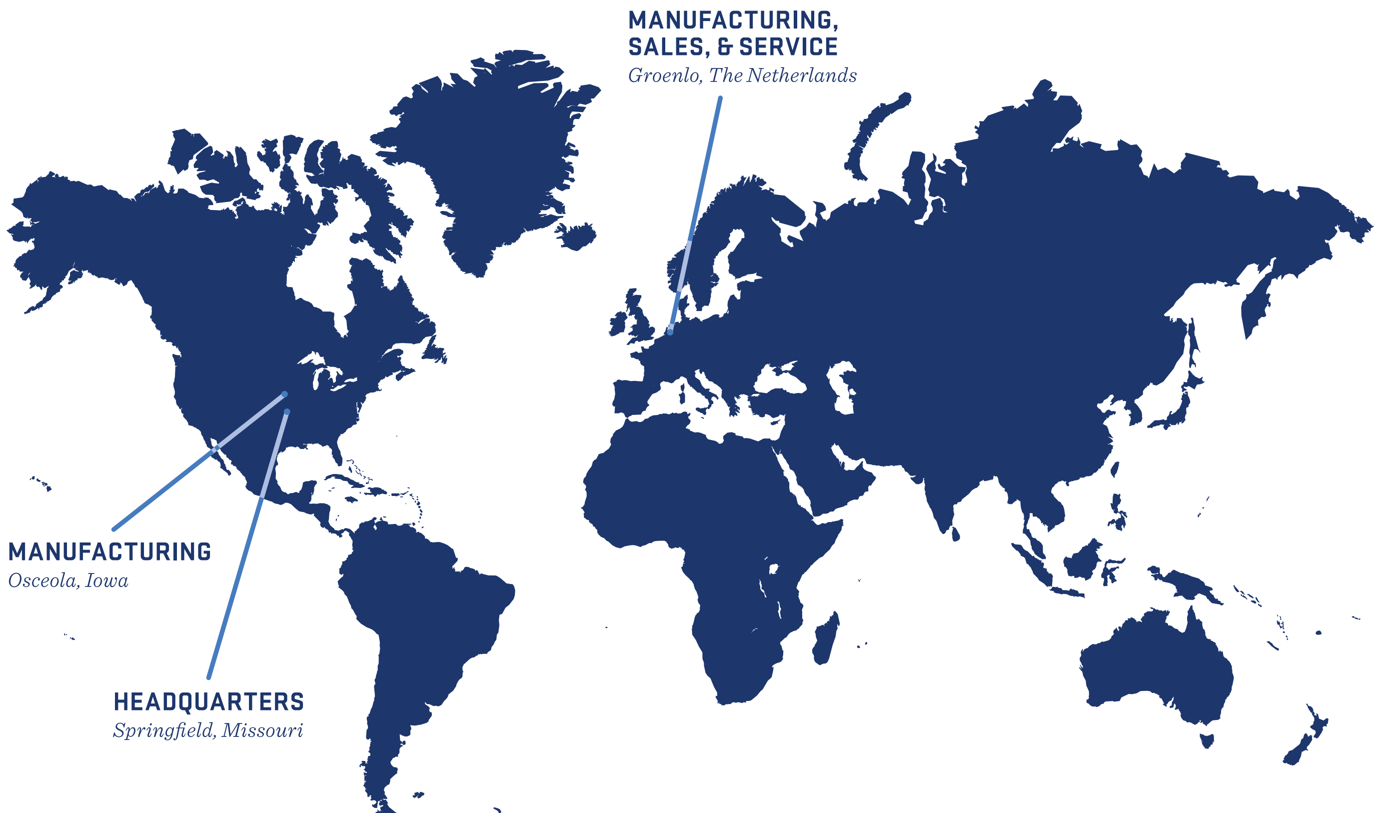
Alongside our improved online engagement, Paul Mueller Company will continue to impart our knowledge and experience through face-to-face interactions. We believe that these spaces are each valuable and will work in tandem to optimize our customer's successes.

[It is] changing the way we meet and collaborate with our customers.

PAUL MUELLER COMPANY

PAUL MUELLER, OUR FOUNDER

At Paul Mueller Company, we are united by a belief in quality that works for life. Our goal is to have lasting impact with every piece of processing equipment we build. This collective vision has led us from a small sheet metal shop into 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.



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