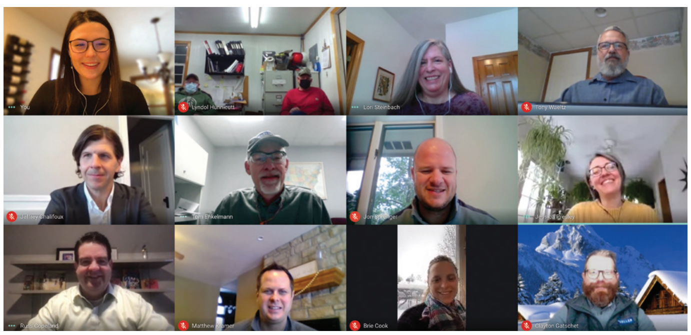
Challenge

2020 PAUL MUELLER COMPANY ANNUAL REPORT

MUELLER

High *Challenge*

In January 2020, none of us imagined the struggles and opportunities that would soon come our way. The disruption to our workplaces, our markets, and our lives challenged us. Paul Mueller Company coworkers resolved to meet the challenges head-on and embrace the opportunities together. In this pictorial display, we highlight some of the ways we rose above the chaos and change. Share your 2020 wins with us online using #bondedtogether on Twitter, Facebook, and LinkedIn.



Virtual meetings became the new place to combine our skills and knowledge to meet customer needs.

From Japan to Ireland, we continued "cooling the world's milk" in 2020. Above: One of our O-8000 milk coolers riding through the countryside outside Cork, Ireland, early in the year.

Virtual factory acceptance testing moved projects forward and kept our coworkers and customers safe.

Called on to produce equipment used in the fight against COVID-19, our dedicated teams worked overtime to deliver on schedule.

Staying safe in new ways kept our global factories open throughout the pandemic.

FINANCIAL HIGHLIGHTS

Operating Results for the Year

Amounts in thousands, except for share data and ratios.	2020	2019	2018
Net Sales	$ 201,116	$ 197,177	$ 201,210
Income Before Taxes	1,467	8,594	3,111
Provision for Income Taxes	4,024	2,005	472
Net Income (Loss)	$ (2,557)	$ 6,589	$ 2,639
Earnings (Loss) Per Common Share:			
Basic	$ (2.14)	$ 5.51	$ 2.21
Diluted	$ (2.14)	$ 5.51	$ 2.21

Year-End Position

Total Assets	$ 120,938	$ 124,894	$ 130,188
Working Capital	$ 24,499	$ 9,695	$ 9,352
Current Ratio	1:63	1:22	1:20
Shareholders' Investment	$ 30,544	$ 32,415	$ 27,628
Book Value Per Share	$ 25.54	$ 27.11	$ 23.10
Common Shares Outstanding	1,195,747	1,195,866	1,196,187
Backlog – United States (Unaudited)	$ 53,887	$ 69,506	$ 83,587
Backlog – The Netherlands (Unaudited)	$ 7,676	$ 10,285	$ 13,767

To the Shareholders of Paul Mueller Company:

As a company, we were fortunate our coworkers performed very well under challenging conditions in 2020. The Company generated the highest earnings in its history before a non-cash charge of $15.4 million taken against the goodwill related to the 2008 acquisition of our European subsidiaries. Net Income, before the goodwill impairment, was $12.8 million on revenue of $201.1 million, showing improved results in the United States and The Netherlands. Net Income, as reported, was a loss of $2.6 million.

These results were achieved in a year with the uncertainty of COVID-19 and with the lowest starting backlog since 2017. Our coworkers rose to this challenge. Our pharmaceutical groups continued their strong performance, both on the large projects discussed in our prior letter and on smaller fast projects supporting the industry's COVID-19 response. Dairy Farm backlog in the U.S. grew during the year, returning that group to full employment. Mueller Field Operations secured the large order to build a juice storage facility, which we mentioned in this letter last year and highlighted for you at the end of this report. Safety incidents in the United States were 43% lower than the prior year, 82% lower than in 2012, and there were no significant safety incidents recorded in The Netherlands. Customer satisfaction improved during a chaotic year. In the U.S., we have formally measured Net Promoter Score (NPS) for three years using an annual survey and have increased it each of those years. In 2020, we began measuring NPS after individual sales and increased it during the year. In The Netherlands this year, we began implementing these same techniques to formally improve our customers' experience.

Mueller B.V. has been a good acquisition for the Company. From 2009, the first full year after the acquisition, until 2016, Mueller B.V. generated $26.4 million in cumulative net income. Adding back the royalties charged by the parent company, this number would be $32.3 million. However, from 2017 through 2020, Mueller B.V. generated a cumulative loss of $4.6 million, or $2.1 million adjusting for the royalties. The loss was related to a weak market for dairy farm equipment in Europe and the cost of consolidating operations in The Netherlands to one location. Mueller B.V. returned to profitability in 2020 with a modest result of $0.6 million Net Income before goodwill impairment. The 2020 improvement in Net Income of $1.4 million was achieved despite lower revenue as the operational and cost improvements made by the Dutch team over the past few years were more fully realized. Despite this, as the years of strong results are further in the past, the current results modest, and the uncertainty in our European markets and the COVID-19 situation continuing, our current projections do not support the value of the goodwill recorded for Mueller B.V. This non-cash charge eliminates goodwill in U.S. Generally Accepted Accounting Principles ("GAAP") reporting, and it makes it more consistent with accounting in The Netherlands, where goodwill is amortized and has already been nearly eliminated.

Net Income in the United States was $12.2 million, an increase of 64%, on revenue of $154.9 million, an increase of 7%. Similar to 2019, the stronger performance was achieved due to operational improvements in the industrial product lines, and the continued strength of the pharmaceutical market, an improving dairy farm equipment market, and a strong year from field fabrication.

The makeup of the Company's profitability has changed dramatically in the past decade. Historically, the most consistent source of financial performance was the Dairy Farm Equipment segment. For the three years ending 2010, the Dairy Farm Equipment segment made up 50% of the revenue and more than 100% of the profits. For the three years ending in 2020 (excluding goodwill impairment), this segment was 38% of revenue and only 15% of profits. This change is not only due to the recent difficulty in our market for dairy farm equipment and the strong performance of our pharmaceutical groups, but also a general improvement in our other product lines and the increased diversification of our earnings. This reflects our coworkers' efforts to build a performance culture in each of our product lines using the open book management techniques we have discussed previously in this letter. We have talented people making decisions independently in small teams close to our customers, a structure critical to taking advantage of challenging opportunities. This culture is revealed not only in these financial results but also in our safety and customer satisfaction results.

We begin 2021 with a backlog of $61.6 million, down $18.2 million from the already low $79.8 million a year ago. Backlog is down in all business segments except Dairy Farm Equipment, which is coming off a historical low, and Mueller Field Operations, which mobilized on the juice storage facility project. This low backlog represents a risk to our ability to perform in 2021, as does the uncertainty related to the general economy and COVID-19 recovery. Despite this starting backlog, we are optimistic about the current inquiry level. We expect to secure enough work to have a good year, but it is unlikely that we can find jobs that provide the higher margins achieved in 2020.

Finally, we are announcing a share repurchase plan to return up to $2.0 million to our shareholders. Before 2009, our company had a long and consistent history of returning capital to shareholders through a regular quarterly dividend. Since December 31, 2008, we have reduced our total borrowings from $56.6 million to $20.6 million and have $22.9 million in cash as of December 31, 2020. During this time, we have made substantial improvements to the operations of the Company, but we still face significant risks, such as those posed by our pension plans and COVID-19. A repurchase plan provides a way to increase liquidity for our shareholders while preserving the flexibility to meet the risks we face. In conjunction with this repurchase plan, on February 5, 2021, the Company purchased 100,000 shares at $40 a share from a shareholder in a private transaction.

Our success depends on many who worked with us during this challenging year. We are grateful to our customers, vendors, dealers, and other collaborators involved in delivering our solutions around the world. Please take a moment to watch this video which gives a sense of the experiences that we have working with these partners (https://www.paulmueller.com/how-a-milk-tank). The video features our longtime dealer in Ireland, Kingston Refrigeration, and is available with subtitles in 11 languages for our partners to use locally with their own customers. Our shareholders are among the people we depend on. We are very appreciative of your support.

Sincerely,

David Moore
President and CEO

March 19, 2021

Consolidated Statements of Operations
Years Ended December 31, 2020, 2019, and 2018

Amounts in thousands, except for share data.	2020	2019	2018
Net Sales	$ 201,116	$ 197,177	$ 201,210
Cost of Sales	140,313	142,435	150,260
Gross profit	60,803	54,742	50,950
Selling, General, and Administrative Expenses	44,155	45,672	47,137
Goodwill Impairment Expense	15,397	–	–
Operating income	1,251	9,070	3,813
Other Income (Expense):			
Interest income	573	261	177
Interest expense	(992)	(827)	(920)
Other, net	635	90	41
Total Other (Expense)	216	(476)	(702)
Income before provision for income taxes	1,467	8,594	3,111
Provision for Income Taxes	4,024	2,005	472
Net Income (Loss)	$ (2,557)	$ 6,589	$ 2,639
Earnings (Loss) Per Common Share:			
Basic	$ (2.14)	$ 5.51	$ 2.21
Diluted	$ (2.14)	$ 5.51	$ 2.21

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

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2020, 2019, and 2018

Amounts in thousands.	2020	2019	2018
Net Income (Loss)	$ (2,557)	$ 6,589	$ 2,639
Other Comprehensive Income (Loss), Net of Tax:			
Foreign currency translation adjustment	$ 3,419	$ (589)	$ (1,659)
Change in pension liability	(2,730)	(1,204)	(1,330)
Comprehensive Income (Loss)	$ (1,868)	$ 4,796	$ (350)

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

Consolidated Balance Sheets
December 31, 2020, 2019, and 2018

Amounts in thousands, except for share data.	2020	2019	2018
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 22,943	$ 1,072	$ 715
Accounts receivable, less reserve for doubtful accounts of $912 for 2020, $1,060 for 2019, and $693 for 2018	20,462	28,509	27,533
Current net investment in sales-type leases	3	47	–
Costs and estimated earnings in excess of billings	45	1,243	258
Inventories: Raw materials and components	12,103	11,232	9,468
Work-in-process	3,014	3,805	8,108
Finished goods	2,809	5,515	9,102
	17,926	20,552	26,678
Prepayments	1,726	2,520	1,808
Total current assets	63,105	53,943	56,992
Property, Plant, and Equipment:			
Land and land improvements	8,577	8,147	8,190
Buildings	28,926	27,626	27,772
Fabrication equipment	86,095	82,020	84,070
Transportation, office, and other equipment	19,073	17,920	16,925
Construction-in-progress	1,277	372	328
	143,948	136,085	137,285
Less: Accumulated depreciation	(97,378)	(88,679)	(86,586)
	46,570	47,406	50,699
Right of Use for Operating Lease	1,217	815	–
Right of Use for Financing Lease	1,231	606	–
Goodwill	–	14,320	14,539
Deferred Taxes	7,643	6,682	7,348
Other Assets	1,089	353	610
Long-Term Net Investment in Sales-Type Leases	83	769	–
Total Assets	$ 120,938	$ 124,894	$ 130,188
LIABILITIES AND SHAREHOLDERS' INVESTMENT			
Current Liabilities:			
Short-term borrowings	$ –	$ 4,875	$ 8,942
Current maturities of long-term debt	2,115	1,333	1,390
Accounts payable	11,316	10,534	11,177
Current lease liability for operating	264	295	–
Current lease liability for financing	255	190	–
Income taxes payable	591	86	–
Accrued expenses: Payroll and benefits	10,916	6,640	6,385
Vacations	1,061	774	960
Other	2,320	2,250	3,411
Advance billings	7,611	8,852	15,179
Billings in excess of costs and estimated earnings	2,157	8,419	196
Total current liabilities	38,606	44,248	47,640
Long-Term Pension Liabilities	30,047	30,395	32,081
Long-Term Debt, Less Current Maturities	18,440	15,334	21,478
Other Long-Term Liabilities	2,226	1,566	1,361
Operating Lease Liability	524	520	–
Financing Lease Liability	551	416	–
Total Liabilities	90,394	92,479	102,560
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	1,508
Paid-in surplus	9,708	9,708	9,708
Retained earnings	65,927	68,484	61,895
	77,143	79,700	73,111
Less: Treasury stock – 311,734 shares for 2020, 311,615 shares for 2019, and 311,294 shares for 2018, at cost	(6,344)	(6,341)	(6,332)
Accumulated other comprehensive (loss)	(40,255)	(40,944)	(39,151)
Total Shareholders' Investment	30,544	32,415	27,628
Total Liabilities and Shareholders' Investment	$ 120,938	$ 124,894	$ 130,188

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

Consolidated Statements of Shareholders' Investment
Years Ended December 31, 2020, 2019, and 2018

Amounts in thousands.	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance – December 31, 2017	$ 1,508	$ 9,708	$ 59,256	$ (6,329)	$ (36,162)	$ 27,981
Add (Deduct):						
Net income	–	–	2,639	–	–	2,639
Other comprehensive (loss), net of tax	–	–	–	–	(2,989)	(2,989)
Treasury stock acquisition	–	–	–	(3)	–	(3)
Balance – December 31, 2018	1,508	9,708	61,895	(6,332)	(39,151)	27,628
Add (Deduct):						
Net income	–	–	6,589	–	–	6,589
Other comprehensive (loss), net of tax	–	–	–	–	(1,793)	(1,793)
Treasury stock acquisition	–	–	–	(9)	–	(9)
Balance – December 31, 2019	1,508	9,708	68,484	(6,341)	(40,944)	32,415
Add (Deduct):						
Net (loss)	–	–	(2,557)	–	–	(2,557)
Other comprehensive income, net of tax	–	–	–	–	689	689
Treasury stock acquisition	–	–	–	(3)	–	(3)
Balance – December 31, 2020	$ 1,508	$ 9,708	$ 65,927	$ (6,344)	$ (40,255)	$ 30,544

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019, and 2018

Amounts in thousands.	2020	2019	2018
Cash Flows from Operating Activities:			
Net income (loss)	$ (2,557)	$ 6,589	$ 2,639
Adjustments to reconcile net income (loss) to net cash provided (required) by operating activities:			
Pension contributions (greater) less than expense	(3,078)	(2,890)	(4,015)
Bad debt expense	168	398	161
Depreciation and amortization	7,083	6,248	5,794
Loss (gain) on sales of equipment	5	(36)	(164)
Interest on lease liability for financing	(18)	(17)	–
Deferred tax expense	533	979	1,182
Goodwill impairment expense	15,397	–	–
Changes in assets and liabilities:			
Decrease (increase) in accounts and notes receivable	7,879	(1,100)	(4,856)
Decrease (increase) in costs and estimated earnings in excess of billings	1,198	(985)	(182)
Decrease in inventories	2,626	6,126	4,402
Decrease (increase) in prepayments	165	(644)	2,000
(Increase) decrease in other assets	(450)	52	(57)
Decrease (increase) in net investment is sales-type leases	730	(816)	–
(Increase) in deferred taxes	(866)	(382)	(422)
Increase (decrease) in accounts payable	782	(642)	(3,065)
Increase (decrease) in accrued expenses	5,138	(1,006)	(1,805)
(Decrease) in advance billings	(1,241)	(6,327)	(2,500)
(Decrease) increase in billings in excess of costs and estimated earnings	(6,262)	8,223	(1,529)
Increase in lease liability for operating	296	1,189	–
Increase in lease liability for financing	487	770	–
Principal payments on lease liability for operating	(323)	(374)	–
Increase (decrease) in long-term liabilities	660	206	(1,997)
Net cash provided (required) by operating activities	28,352	15,561	(4,414)
Cash Flows (Requirements) from Investing Activities:			
Intangibles	–	(118)	–
Proceeds from sales of equipment	14	49	173
Additions to property, plant, and equipment	(7,253)	(4,340)	(4,838)
Net cash (required) by investing activities	(7,239)	(4,409)	(4,665)
Cash Flow Provisions (Requirements) from Financing Activities:			
Principal payments on lease liability for financing	(269)	(147)	–
(Repayment) proceeds of short-term borrowings	(4,150)	(4,088)	6,313
Long-term debt proceeds	3,335	–	6,137
Principal payments on long-term debt	(1,105)	(5,893)	(7,059)
Treasury stock acquisitions	(3)	(9)	(3)
Net cash (required) provided by financing activities	(2,192)	(10,137)	5,388
Effect of Exchange Rate Changes	2,950	(658)	(2,165)
Net Increase (Decrease) in Cash and Cash Equivalents	21,871	357	(5,856)
Cash and Cash Equivalents at Beginning of Year	1,072	715	6,571
Cash and Cash Equivalents at End of Year	$ 22,943	$ 1,072	$ 715

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.

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 – Net Sales reported on the statement of operations solely consists of revenue from customer contracts. Management has concluded that the Segment Data disaggregation of revenue provided in Footnote 8 also satisfies the revenue disaggregation disclosure requirement under Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." During the year ended December 31, 2020, there was $17,140,000 of revenue recognized that was included on the December 31, 2019, Consolidated Balance Sheets as advance billings and billings in excess of costs and estimated earnings (contract liabilities). During the year ended December 31, 2019, there was $15,506,000 of revenue recognized that was included on the December 31, 2018, Consolidated Balance Sheets as advance billings and billings in excess of costs and estimated earnings (contract liabilities). During the year ended December 31, 2018, there was $19,040,000 of revenue recognized that was included on the December 31, 2017, Consolidated Balance Sheets as advance billings and billings in excess of costs and estimated earnings (contract liabilities).

Revenue from sales of fabricated products or services is recognized based upon the transfer of promised products or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those products or services. Transfer of the products or services may occur at the time of shipment from the Company's dock, at the time of delivery to the customer's location, when projects are completed in the field and accepted by the customer, or throughout the progress of the project dependent upon contract terms and exclusivity of the products or services. For each project, distinct products or services are identified as performance obligations and revenue is recognized appropriately for each performance obligation independently. The revenue allocated to each performance obligation will align with the determination of stand-alone selling price. The Company determines its stand alone selling price using the cost plus margin method. In situations where the contract dictates that control transfers to the customer upon delivery, then freight is to be a fulfillment activity for the performance obligation and the freight cost allocable to that performance obligation will be added to the performance obligation revenue. In situations where the contract dictates that control transfer to the customer upon shipment, but the Company is responsible for the shipping and handling activities after transfer of control, the Company has elected the accounting policy to treat those shipping and handling activities as fulfillment activities and not promised services that have to be further evaluated under Topic 606. If the products or services of a performance obligation have an alternative use, then the performance obligation will be recognized at a point-in-time. If the products or services do not have an alternative use or are field-fabricated at the customer's location, then the performance obligation will be recognized over-time.

The point-in-time method recognizes revenue of each performance obligation as it is shipped or delivered to the customer (as determined by the contract) or completed and accepted by the customer for services. The applicable manufacturing cost of each performance obligation is identified and charged to cost of sales as revenue is recognized.

Total revenue recognized at a point-in-time and over-time was as follows for the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
Revenue recognized at a point-in-time	$ 139,415	$ 161,113	$ 176,066
Revenue recognized over-time	$ 61,701	$ 36,064	$ 25,144
Net sales	$ 201,116	$ 197,177	$ 201,210

The over-time method recognizes revenue using certain methods to measure progress toward the complete satisfaction of performance obligations. The Company uses the input method of cost incurred for plant-fabricated stand-alone tanks and field fabricated equipment. The Company uses the input method of hours performed for plant-fabricated skidded-systems. Under the hours performed method, revenues and profits for plant-fabricated skidded 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. This method provides an accurate depiction of progress on the project because manufacturing labor hours are level (loaded across the duration of the project) as opposed to material costs, which are heavily expended in the beginning of the project and drop off at the end. For field-fabricated projects and plant-fabricated stand-alone tanks, 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. This method provides an accurate depiction of progress on the project because of the various types of cost on the field-fabrication projects and plant-fabricated stand-alone tanks (e.g., material, labor, rental, and subcontractor, etc.). As these costs occur in the project it is an accurate picture of the progress of the work in total versus looking at one specific component. Other considerations evaluated in the over-time method are significant financing components and variable consideration. A significant financing component does not exist for the Company's projects because a vast majority complete within one year and if a project extends beyond one year there will be progress billings. Variable consideration is accounted for if it is likely to exist on a project (an example would be liquidated damages for delay in the contract and the project is projecting to be late).

The Company generally provides limited-assurance-type warranties for standard products and work performed under its contracts. The warranty periods typically extend for a limited duration following transfer of control of the product. See note 6 for further information on warranty costs incurred. The Company does not consider these warranties to be performance obligations. Occasionally, the Company offers extended warranties to customers, which are purchased separately. Extended warranties are considered to be separate performance obligations.

Sales commissions paid to sales personnel, as well as associated payroll taxes and retirement plan contributions (together, sales commissions and associated costs) that are incremental to the acquisition of customer contracts, are capitalized as deferred contract costs on the balance sheet when the period of benefit is determined to be greater than one year. The Company has elected to apply the practical expedient to expense sales commissions and associated costs as incurred when the expected amortization period is one year or less. The Company determines the period of benefit for sales commissions paid and associated costs for the acquisition of an initial contract by taking into consideration the initial estimated customer life, as well as future expectations about whether the renewal commission will be commensurate with the initial commission. Amortization is recognized on a straight-line basis commensurate with the pattern of revenue recognition.

At December 31, 2020, 2019, and 2018, there are customer contracts of which some, but not all, performance obligations have been satisfied. The Company is electing the optional exemption to not disclose the total amount of the transaction price allocated to these performance obligations, or explain when the Company expects to recognize the transaction price allocated to these performance obligations, because the Company believes the performance obligations will be satisfied in one year or less.

Costs and estimated earnings on uncompleted contracts and related amounts billed as of December 31, 2020, 2019, and 2018, were as follows (in thousands):

	2020	2019	2018
Costs incurred on uncompleted contracts	$ 52,100	$ 23,829	$ 27,506
Estimated earnings	17,546	8,989	6,259
	69,646	32,818	33,765
Less: Billings to date	68,059	39,994	31,915
	$ 1,587	$ (7,176)	$ 1,850

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2020, 2019, and 2018, under the following captions were (in thousands):

	2020	2019	2018
Costs and estimated earnings in excess of billings on uncompleted contracts (contract assets)	$ 45	$ 1,243	$ 258
Income earned not invoiced included in accounts receivable	3,699	–	1,788
Billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities)	(2,157)	(8,419)	(196)
	$ 1,587	$ (7,176)	$ 1,850

Costs and estimated earnings in excess of billings (contract assets) and billings in excess of costs and estimated earnings (contract liabilities) relate to contracts in progress and are included in the accompanying Consolidated Balance Sheets as current assets and current liabilities. The change in these accounts from year to year reflects the timing of these large projects. At December 31, 2018, a large project was winding down. At December 31, 2019, a large project had just begun, which is reflected by an increase in costs of materials inventoried, but not yet put into the production process (contract assets), and an increase in funds paid by customer in advance for work that had not yet been completed (contract liabilities).

Contracts with some customers provide for a portion of the sales amount to be retained by the customer for a period of time after completion of the contract. Retainages included in accounts receivable as of December 31, 2020, were $781,000. Retainages included in accounts receivable as of December 31, 2019, were $5,000. Retainages included in accounts receivable as of December 31, 2018, were $115,000.

The Company has elected the practical expedient to not adjust the promised consideration for the effects of a significant financing component, because at contract inception the Company believes that the time between when the Company transfers its products or services to a customer and when the Company will receive payment for such goods or services will be less than one-year. Most of the Company's projects have a less-than-one-year duration, and for those that extend longer, the Company negotiates progress payments that reduce or eliminate the financing component along the length of the project.

When evaluating variable consideration of the Company's projects, there are limited areas in which variable consideration would arise. The most prominent of these would be concessions provided in the event of a delivery delay. These concessions could take the form of liquidated damages agreed to in the contract or expected back-charges for a customer's direct impact of delay. The Company has significant experience with both standard and custom products, and has appropriate expense mitigation language included in its contracts of sale related to its products. For variable consideration arising from liquidated damages, the schedule of damages will be outlined in the contract and the Company would be able to calculate the exact reduction in transaction price arising from a delay in delivery, if the customer were to pursue the liquidated damages. Whether or not the customer would pursue the liquidated damages would be estimated using the expected value method and treated as a direct reduction to the total transaction price. For contracts without a liquidated damages provision, the Company has protection from highly variable costs because of contractual language limiting the costs that its customers can expect to have reimbursed by the Company. More so, it is a minority of projects where the Company is late delivering its obligations and even less that result in concessions being given. For this reason, the application of the variable consideration constraint does not result in the amount of variable consideration included in the contract price being constrained. The Company utilizes the expected value method to estimate and account for variable consideration of its projects.

Shipping fees charged are included in revenue, whereas sales, use, and other taxes collected from customers are excluded from revenue. The Company has elected an accounting policy that excludes, from the transaction price, all taxes assessed by a government authority that are both imposed on and concurrent with a specific revenue transaction and are collected by the Company from a customer. Outbound shipping and handling costs are included in cost of sales.

For the years ended December 31, 2020 and 2019, there were no bill-and-hold transactions. For the year ended December 31, 2018, revenue of $762,977, attributable to two customers, was recorded prior to delivery as bill-and-hold transactions, due to both customers requesting delayed delivery and storage of the completed equipment. As of December 31, 2018, the remaining performance obligations related to the storage of the equipment and those performance obligations were fulfilled during the year ended December 31, 2019. As of December 31, 2018, accounts receivable related to bill-and-hold transactions were zero.

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.

For standard products and services, the Company's standard payment terms provide for payment in full within thirty (30) days of shipment of the products or completion of the services. For products that are designed and built to customer specifications or are field-fabricated, the Company may have a payment schedule agreement with the customer that provides for advances and progress billings prior to transfer of control of the products or completion of the field-fabrication. 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, 2020, 2019, and 2018, the amounts in advanced billings were $7,611,000, $8,852,000, and $15,179,000, respectively.

For most customer orders, there is no right of return provided to the customer. The exception to this would be for standard parts orders in which the Company would allow for return and refund of the purchase price, less an applicable restocking fee. For the orders where returns would be allowed, the Company evaluates the likelihood of return on those orders and treats the probable returns as a direct reduction to the transaction price.

Inventories – Inventories are valued at the lower of cost or market. For 2020 and 2019, inventories are adjusted using the internal index method for calculating last-in, first-out ("LIFO"). For 2018, inventory is adjusted using the inventory price index computation ("IPIC") method, which bases the 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 $12,856,000, $13,192,000, and $13,236,000 higher than those reported as of December 31, 2020, 2019, and 2018, respectively.

Inventories of Mueller B.V. were $10,925,000, $11,060,000, and $13,061,000 as of December 31, 2020, 2019, and 2018, 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, 2020, 2019, and 2018.

The pretax results for the twelve months ended December 31, 2020, were favorably affected by a $336,000 decrease in the LIFO reserve. The pretax results for the twelve months ended December 31, 2019, were favorably affected by a $44,000 decrease in the LIFO reserve. The pretax results for the twelve months ended December 31, 2018, were unfavorably affected by a $2,065,000 increase in the LIFO reserve.

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 $7,035,000, $6,200,000, and $5,724,000 for the years ended December 31, 2020, 2019, and 2018, respectively. The economic useful lives within each property classification are as follows:

	Years
Buildings	33 – 40
Land improvements	10 – 20
Fabrication equipment	5 – 10
Transportation, office, and other equipment	3 – 10

Maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of assets retired are removed from the accounts, and any resulting gains or losses are recorded in the Consolidated Statements of Operations.

Research and Development – Research and development costs are charged to expense as incurred and were $558,000 during 2020, $672,000 during 2019, and $890,000 during 2018.

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 discounted cash flows. There were no impairments as of December 31, 2020, 2019, and 2018.

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):

	2020	2019	2018
Net income (loss)	$ (2,557)	$ 6,589	$ 2,639
Shares for basic earnings per common share:			
Weighted-average shares outstanding	1,195,747	1,195,866	1,196,187
Shares for diluted earnings per common share:			
Adjusted weighted-average shares outstanding	1,195,747	1,195,866	1,196,187
Earnings (loss) per common share:			
Basic	$ (2.14)	$ 5.51	$ 2.21
Diluted	$ (2.14)	$ 5.51	$ 2.21

Comprehensive Income (Loss) – The components of other comprehensive income (loss) for the years ended December 31, 2020, 2019, and 2018, were as follows (in thousands):

	2020	2019	2018
Foreign currency translation adjustment	$ 3,419	$ (589)	$ (1,659)
Tax	–	–	–
Foreign currency translation adjustment, net of tax	3,419	(589)	(1,659)
Change in pension liability	(3,596)	(1,585)	(1,751)
Tax	866	381	421
Change in pension liability, net of tax	(2,730)	(1,204)	(1,330)
Other comprehensive (loss)	$ 689	$ (1,793)	$ (2,989)

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, 2020, 2019, and 2018, were as follows (in thousands):

	2020	2019	2018
Interest payments	$ 887	$ 594	$ 753
Income tax payments	$ 2,870	$ 110	$ 428

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

	Shares	
	Common	Treasury
Balance – December 31, 2017	1,507,481	311,220
Treasury stock acquisition	–	74
Balance – December 31, 2018	1,507,481	311,294
Treasury stock acquisition	–	321
Balance – December 31, 2019	1,507,481	311,615
Treasury stock acquisition	–	119
Balance – December 31, 2020	1,507,481	311,734

Goodwill and Other Intangible Assets – The Company's goodwill was recorded as a result of the Company's business combinations using the acquisition method of accounting. The Company does not amortize goodwill, but tests it at least annually at November 30 for recoverability. Other intangible assets include patents, brand names, and customer relations. Such intangible assets are amortized on a straight-line basis over their estimated useful lives.

<u>Impairment:</u> Finite-lived intangible assets, other than goodwill, are tested for impairment based on undiscounted cash flows at an asset group level when circumstances indicate impairment may exist and, if impaired, written down by the amount by which the carrying value of the asset group exceeded its fair value, based on either discounted cash flows or market values. However, the carrying amount of a finite lived intangible asset can never be written down below its fair value.

Goodwill is tested annually for impairment, or sooner when circumstances indicate an impairment may exist, using a fair-value approach at the reporting unit level. A reporting unit is the operating segment, or a business which is one level below that operating segment (the "component" level) if discrete financial information is prepared and regularly reviewed by segment management at the component level. Components are aggregated as a single reporting unit if they have similar economic characteristics. The Company may elect to first perform a qualitative assessment, based on relevant events and circumstances, to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the carrying amount exceeds the fair value of the reporting unit, the impairment charge will be measured as the amount by which the carrying value exceeds the fair value.

Fair Value of Financial Instruments – Financial instruments consist mainly of cash and cash equivalents, accounts receivable, accounts payable, and short-term 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 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.

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

As of December 31, 2020, 2019, and 2018, no provision has been made for U.S. federal deferred income taxes on $7,685,000, $22,443,000, and $23,248,000, respectively, 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.

Recent Accounting Pronouncements – In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The guidance in this ASU supersedes the leasing guidance in Topic 840, "Leases." Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. As an accounting policy, the Company has elected not to apply the recognition requirements of Topic 842 to short-term leases of less than twelve months.

In August 2018, the FASB issued ASU 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans," which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. This ASU is effective for the Company for fiscal years ending after December 15, 2020, and must be applied on a retrospective basis. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,” which is intended to simplify various aspects related to accounting for income taxes. ASU Topic 740 removes certain exceptions to the general principles in ASC 740, and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for public entities for fiscal years beginning after December 15, 2020, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

Leases – The Company has adopted ASU 2016-02, “Leases (Topic 842), using the modified retrospective method as of January 1, 2019.

As Lessee: The Company has operating leases for office equipment, buildings, plant equipment, and company vehicles related to its operations in The Netherlands, and the Company had an operating lease for the tractor trailers related to the Mueller Transportation, Inc. subsidiary, but that lease expired in October 2019. The Company has finance leases for company vehicles and plant equipment related to its operations in The Netherlands.

The lease of office space in a building in Germany, as well as the leases of office equipment, have variable lease payments that are determined by the local pricing index, but all other leases have fixed lease payments. There are only two leases that include options to renew: the Vietnam building lease and the Germany building lease. Both leases go to year-over-year renewals after the initial term, unless either party terminates in accordance with the notice provisions of each lease. None of the leases provide a residual value guarantee to the lessor.

In applying ASU Topic 842, the Company was unable to determine the implicit rates for each lease, so lending rates from the Company’s lending institutions were used. Rates were selected based on length of remaining lease term as of January 1, 2019, for leases transitioned in the initial adoption and, as of the commencement date, of all leases entered into after January 1, 2019.

For the year ended December 31, 2020, the financial statements include finance lease costs of $225,000 in amortization of the ROU assets and $15,000 in interest on the lease liabilities and the operating lease costs of $265,000. For the year ended December 31, 2019, the financial statements include finance lease costs of $147,000 in amortization of the ROU assets and $17,000 in interest on the lease liabilities and the operating lease costs of $372,000.

The following weighted averages apply to the Company’s operating and finance leases:

	2020	2019
Weighted average remaining lease term, finance lease	3.7 years	4.0 years
Weighted average remaining lease term, operating lease	3.6 years	3.6 years
Weighted average discount rate, finance lease	2.08%	2.15%
Weighted average discount rate, operating lease	1.99%	2.15%

As Lessor: Upon adoption of ASU Topic 842, the effect to the financials as of January 1, 2019, was insignificant, so no adjustment was recorded. For the year ending December 31, 2020, total income from operating leases was $4,458,000, which is included in the consolidated income statement in net sales. For the year ending December 31, 2020, for sales-type leases, total revenue recorded was $26,000, and total costs of goods sold recorded was $37,000, which are included in the consolidated income statement in net sales and cost of sales, respectively. For the year ending December 31, 2019, total income from operating leases was $4,365,000, which is included in the consolidated income statement in net sales. For the year ending December 31, 2019, for sales-type leases, total revenue recorded was $699,000, and total costs of goods sold recorded was $365,000, which are included in the consolidated income statement in net sales and cost of sales, respectively.

The Company has a fleet of rental milk coolers and related equipment that are leased out to farmers from the operations in The Netherlands. The lease payments are fixed for the duration of the lease and do not have a variable component. These leases are operated on a month-to-month basis and the assumption of a 113-month average lease term was used in adopting ASU Topic 842. These leases do allow the farmers to purchase the equipment, but in practice this option is not typically taken (less than 10% of leases end in purchase).

Depreciation expense for assets subject to operating leases is provided primarily on the straight-line method over the term of the lease in amounts necessary to reduce the carrying amount of the asset to its estimated residual value. Estimated and actual residual values are reviewed on a regular basis to determine that depreciation amounts are appropriate. Depreciation expense relating to machinery and equipment held as investments in operating leases was $572,000 for 2020 and $761,000 for 2019.

Investments in operating leases at December 31 are as follows (in thousands):

	2020	2019
Machinery and equipment, at cost	$ 13,472	$ 16,547
Accumulated depreciation	(8,264)	(11,400)
Net investments in operating leases	$ 5,208	$ 5,147

A maturity analysis of the annual undiscounted cash flows of the operating lease payments to be received as of December 31 are as follows (in thousands):

2021	$ 4,122
2022	3,907
2023	3,638
2024	3,323
2025	2,820
Thereafter	5,649
	$ 23,459

The components of lease receivables for the net investment in sales-type leases at December 31 are as follows (in thousands):

	2020	2019
Total minimum lease receivables	$ 75	$ 603
Less: Allowance for credit loss	–	–
Net minimum lease payments receivable	75	603
Estimated residual values of leased property	11	213
Net investments in sales-type leases	$ 86	$ 816
Current portion	$ 3	$ 47
Long-term portion	$ 83	$ 769

A maturity analysis of the annual undiscounted cash flows of the sales-type lease payments to be received as of December 31 are as follows (in thousands):

2021	$ 22
2022	22
2023	22
2024	22
2025	22
Thereafter	79
	$ 189
Less discounted cash flow adjustment	(114)
Total minimum lease receivable	$ 75

(2) Goodwill and Intangible Assets:

The Company's goodwill was recorded from the acquisition of Mueller B.V. and its subsidiaries. Prior to 2016, Mueller B.V. was profitable. However, from 2017 to 2020, Mueller B.V. generated a cumulative loss of $4.6 million. This loss was from a combination of the soft dairy market in the Benelux, the cost of consolidating operations in The Netherlands to one location, and, in 2020, the difficulties caused by the the outbreak of the coronavirus (COVID-19). The outbreak had a negative impact on Mueller B.V.'s business, especially in the export sales outside the Benelux. The beer processing and serving equipment segment was negatively affected, as bars and restaurants were closed or had reduced capacity throughout Europe. All of these factors, coupled with the continued uncertainty of the coronavirus impact, caused management to reduce the outlook for Mueller B.V.'s profitability in the short term.

In performing the quantitative impairment test as of November 30, 2020, and consistent with its prior practice, the Company determined the fair value of the Mueller B.V. reporting unit using a combination of the income approach and the market approach. The indicated values of each approach were weighted based upon the availability and quality of the information underlying each method.

Under the income approach, the fair value of the Mueller B.V. reporting unit was determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. The Company used its internal forecasts, updated for recent events, to estimate future cash flows with cash flows beyond the specific operating plans estimated using a terminal value calculation. Due to the inherent uncertainties involved in making estimates and assumptions, actual results may differ from those assumed in the Company's forecasts. The discount rate was determined using a capital asset pricing model with published rates for elements of the cost of equity.

The market approach utilized metrics of publicly traded companies or historically completed transactions of comparable businesses. The selection of comparable businesses was based on the market in which the reporting unit operates, giving consideration to risk profiles, size, geography, and diversity of products and services.

Based upon the result of our quantitative impairment test performed as of November 30, 2020, we concluded that the carrying value of the Mueller B.V. reporting unit exceeded its estimated fair value as of the testing date. This resulted in goodwill impairment charges of $15,397,000. The goodwill impairment was calculated as the amount that the carrying value of the reporting unit, including any goodwill, exceeded its fair value. No goodwill impairment charge was necessary for years ended December 31, 2019 and 2018.

Intangible assets as of December 31, 2020, 2019, and 2018, 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, 2017	$ 57	$ 132	$ 29	$ 218
Amortization 2018	(3)	(39)	(28)	(70)
Foreign currency fluctuation	(3)	(5)	(1)	(9)
Balance as of December 31, 2018	$ 51	$ 88	$ –	$ 139
Amortization 2019	(3)	(35)	–	(38)
Foreign currency fluctuation	(1)	(1)	–	(2)
Balance as of December 31, 2019	$ 47	$ 52	$ –	$ 99
Amortization 2020	(3)	(21)	–	(24)
Foreign currency fluctuation	5	4	–	9
Balance as of December 31, 2020	$ 49	$ 35	$ –	$ 84

Average amortization periods for brand names and patents are eighteen and nine years, respectively. Aggregate amortization of intangible assets was $24,000, $38,000, and $70,000 for the years ended December 31, 2020, 2019, and 2018, respectively. Estimated aggregate amortization for the next five years and thereafter are as follows (in thousands):

2021	$ 10
2022	10
2023	10
2024	10
2025	10
Thereafter	34
	$ 84

The changes in the carrying amount of goodwill for the years ended December 31, 2020, 2019, and 2018, were as follows (in thousands):

Balance as of December 31, 2017	$ 15,195
Foreign currency fluctuation	(656)
Balance as of December 31, 2018	$ 14,539
Foreign currency fluctuation	(219)
Balance as of December 31, 2019	$ 14,320
Impairment	(15,397)
Foreign currency fluctuation	1,077
Balance as of December 31, 2020	$ –

Total amortization amount charged to expense was $24,000 as of December 31, 2020. An additional $16,000 of computer software costs were included in the accompanying balance sheet as of December 31, 2019. The computer software project was completed as of September 30, 2019; the total amortization amount charged to expense was $10,000 as of December 31, 2019. The unamortized computer software cost included in the accompanying balance sheets was $102,000 for December 31, 2018. The computer software project was not complete as of December 31, 2018; the total amount charged to expense was zero for December 31, 2018.

(3) 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 $1,000,000 for 2020, $1,008,000 for 2019, and $939,000 for 2018.

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, the Company's 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, 2020, 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 2020	2019	2018	FIP/RP Status Pending/ Consolidated	Company Contributions 2020	2019	2018	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
Boilermaker-Blacksmith National Pension Trust	48-6168020/001	Yellow	Red	Yellow	Yes	$962,638	$503,594	$493,883	No	Described Below [(a)]

(a) 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 Operations were $1,356,000 for 2020, $1,233,000 for 2019, and $1,311,000 for 2018.

Total domestic pension expense under the plans was $514,000 for 2020, $1,686,000 for 2019, and $843,000 for 2018. The required minimum contributions to be made in 2021 are estimated to be $4,232,000. 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):

	2020	2019	2018
Change in projected benefit obligation:			
Benefit obligation as of beginning of year	$ 100,614	$ 92,349	$ 99,908
Interest cost	3,079	3,733	3,413
Actuarial (gain) loss	8,270	9,815	(5,046)
Benefits paid and expenses	(5,363)	(5,283)	(5,539)
Lump sum paid	–	–	(387)
Benefit obligation as of end of year	$ 106,600	$ 100,614	$ 92,349
Change in plan assets:			
Fair value of plan assets as of beginning of year	70,219	60,268	65,141
Actual return on plan assets	7,239	10,277	(4,227)
Employer contributions	4,458	4,957	5,280
Benefits paid and expenses	(5,363)	(5,283)	(5,539)
Lump sum paid	–	–	(387)
Fair value of plan assets as of end of year	$ 76,553	$ 70,219	$ 60,268
Funded status	$ (30,047)	$ (30,395)	$ (32,081)
Funded status as of end of year	$ (30,047)	$ (30,395)	$ (32,081)

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

	2020	2019	2018
Interest cost	$ 3,079	$ 3,733	$ 3,413
Expected return on plan assets	(4,440)	(3,839)	(4,234)
Amortization of prior service cost	1,875	1,792	1,664
Net periodic pension expense	$ 514	$ 1,686	$ 843

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

	2020	2019	2018
Projected benefit obligations	$ 106,600	$ 100,614	$ 92,349
Accumulated benefit obligations	$ 106,600	$ 100,614	$ 92,349
Fair value of plan assets	$ 76,553	$ 70,219	$ 60,268

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

	2020	2019	2018
Discount rate	2.35%	3.15%	4.16%
Rate of compensation increase	N/A	N/A	N/A

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

	2020	2019	2018
Discount rate	3.15%	4.16%	3.50%
Expected long-term return on plan assets	6.43%	6.42%	6.37%
Rate of compensation increase	N/A	N/A	N/A

Pension expense is calculated based upon a number of actuarial assumptions established on January 1 of the applicable year (detailed in the table above), including the weighted average discount rate, the expected long-term rate of return on plan assets, and the rate of increase in future compensation levels for the applicable plan. Discount rates were determined by creating hypothetical portfolios of high-quality bonds available without call features and in U.S. dollars as of the measurement date. These portfolios were constructed in such a way that all expected benefit payments from the plans could be provided by the coupon and maturity payments of the bonds as they become payable. Although the match could not be exact, the portfolios were constructed so that the excess bond payments were held to a minimum and were paid out as soon as possible. The discount rate used to determine pension expense increased from 3.50% for 2018 to 4.16% for 2019, and decreased to 3.15% for 2020. The effect of the rate decrease was to decrease pension expense by $996,535 for 2020. 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 6.43% for 2020, 6.42% for 2019, and 6.37% for 2018.

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:

	2020	2019	2018
Asset category:			
Equities	64%	62%	58%
Fixed income	35%	37%	41%
Other	1%	1%	1%
	100%	100%	100%

The long-term asset allocation on average will approximate 60% in equities and 40% 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 fair value, 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, 2020, 2019, and 2018 (in thousands):

Asset Category	Fair Value at 12-31-20	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Asset Value
Cash and cash equivalents	$ 432	$ 432[a]	$ –	$ –	$ –
Equity securities	49,469	49,469[b]	–	–	–
Fixed income securities	26,652	17,942[c]	–	–	8,710[d]
Total plan assets	$ 76,553	$ 67,843	$ –	$ –	$ 8,710

Asset Category	Fair Value at 12-31-19	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Asset Value
Cash and cash equivalents	$ 509	$ 509[a]	$ –	$ –	$ –
Equity securities	43,239	43,239[b]	–	–	–
Fixed income securities	26,471	17,266[c]	–	–	9,205[d]
Total plan assets	$ 70,219	$ 61,014	$ –	$ –	$ 9,205

Asset Category	Fair Value at 12-31-18	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments at Net Asset Value
Cash and cash equivalents	$ 850	$ 850[a]	$ –	$ –	$ –
Equity securities	34,366	34,366[b]	–	–	–
Fixed income securities	25,052	15,786[c]	–	–	9,266[d]
Total plan assets	$ 60,268	$ 51,002	$ –	$ –	$ 9,266

(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.

(d) In accordance with ASC 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Pension benefits expected to be paid over the next ten years are as follows (in thousands):

2021	$ 5,492
2022	5,537
2023	5,560
2024	5,792
2025	5,815
2026 through 2030	28,962
	$ 57,158

Included in accumulated other comprehensive loss as of December 31, 2020, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $54,832,000 ($42,560,000, net of tax). Included in accumulated other comprehensive loss as of December 31, 2019, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $51,236,000 ($40,420,000, net of tax). Included in accumulated other comprehensive loss as of December 31, 2018, are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized actuarial losses of $49,650,000 ($36,339,000, 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, 2021, is $2,082,000.

(4) Income Taxes:

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

	2020	2019	2018
Current tax expense	$ 3,491	$ 1,026	$ (710)
Deferred, net	533	979	1,182
	$ 4,024	$ 2,005	$ 472

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, 2020, 2019, and 2018, is shown below (in thousands):

	2020	2019	2018
Deferred tax assets:			
Worker's compensation	$ 150	$ 165	$ 155
Vacation	165	118	171
Warranty	131	85	88
Doubtful accounts	29	72	57
Pensions	7,077	6,831	7,296
Inventories	406	565	195
Tax attribute carryforward	597	1,128	1,944
Other	1,439	766	383
Net deferred tax assets	$ 9,994	$ 9,730	$ 10,289
Deferred tax liabilities:			
Intangibles	$ (20)	$ (24)	$ (33)
Property, plant, and equipment	(3,119)	(3,075)	(2,699)
Other liabilities	(209)	(285)	(622)
Net deferred tax liabilities	$ (3,348)	$ (3,384)	$ (3,354)
Net deferred tax assets	$ 6,646	$ 6,346	$ 6,935

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, 2020, 2019, and 2018, were ($591,000) payable and $137,000 receivable, ($86,000) payable, and $998,000 receivable, respectively, and are included in accounts receivable on the accompanying Consolidated Balance Sheets. The detail of the deferred tax assets and liabilities as of December 31, 2020, 2019, and 2018, is shown below (in thousands):

	2020	2019	2018
Deferred tax assets, United States	$ 9,475	$ 8,759	$ 9,348
Deferred tax liability, United States	(1,832)	(2,077)	(2,000)
Net deferred tax assets, United States	$ 7,643	$ 6,682	$ 7,348
Net deferred tax liabilities, The Netherlands	$ (997)	$ (336)	$ (413)

The Company's deferred income tax assets include certain future tax benefits. As of December 31, 2020, the tax effected deferred tax assets included $79,000 related to state net operating losses and none related to federal net operating losses, which expire between the years 2024 and 2034.

A reconciliation between the expected income tax expense at the statutory federal income tax rate (21%) and the reported income tax expense for each of the three years ended December 31, 2020, 2019, and 2018, follows (in thousands):

	2020	Rates	2019	Rates	2018	Rates
Statutory federal income tax expense (benefit)	$ 308	21.00%	$ 1,805	21.00%	$ 653	21.00%
Increase (decrease) in taxes resulting from:						
Tax credits	(191)	(13.17%)	(262)	(3.06%)	(92)	(2.96%)
State tax, net of federal benefit	509	35.09%	298	3.48%	234	7.52%
Net unrecognized tax positions	50	3.45%	65	.76%	(45)	(1.45%)
Non-deductible goodwill	2,804	193.30%	–	–	–	–
International taxes	701	48.33%	189	2.28%	(579)	(18.62%)
Deferred rate change	–	–	–	–	70	2.25%
Permanent differences	(75)	(5.17%)	(40)	(.47%)	31	1.01%
Other, net	(82)	(5.65%)	(50)	(.58%)	200	6.43%
	$ 4,024	277.18%	$ 2,005	23.41%	$ 472	15.18%

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balances as of December 31, 2020, 2019, and 2018, are included in other long-term liabilities and in the deferred tax liabilities on the accompanying Consolidated Balance Sheets (in thousands):

Balance as of December 31, 2018	$ 394
Additions based on tax positions related to the prior year	65
Reductions for tax positions of prior years	–
Balance as of December 31, 2019	$ 459
Additions based on tax positions related to the prior year	50
Reductions for tax positions of prior years	–
Balance as of December 31, 2020	$ 509

Federal tax returns are generally subject to examination for tax years 2017 and forward state statutes vary, but state income tax returns are generally subject to examination from 2016 and forward. The unrecognized benefits of $509,000 as of December 31, 2020, 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, 2020, 2019, and 2018.

(5) Borrowings:

In 2014, the Company entered into a domestic bank borrowing facility of $15,000,000. On November 16, 2018, the Company amended the domestic bank borrowing facility agreement to extend the agreement until November 16, 2021. 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. As of December 31, 2020, the balance outstanding was zero under the facility. As of December 31, 2019, the balance outstanding was $4,296,000 under the facility. As of December 31, 2018, the balance outstanding was $6,083,000 under the facility.

On March 31, 2020, Mueller B.V.'s bank borrowing facility was reduced to $3,690,000. Borrowings under the facility are at the variable rate of one-month Euribor plus 1.55%. Total borrowings under the facility was zero as of December 31, 2020, $579,000 as of December 31, 2019, and $2,859,000 as of December 31, 2018. Mueller B.V. has a financial leverage covenant of a minimum EBITDA, total debt to EBITDA, and a minimum fixed charge coverage at each quarter for the trailing twelve months. Mueller B.V. was in compliance with all financial covenants at December 31, 2020.

The Company was granted a loan in the amount of $1,883,700, pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The loan, which was in the form of a note dated June 12, 2020, issued to the Company, matures on June 11, 2025, and bears interest at a rate of 1% per annum, with a deferral of payments for the first six months. The note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, utilities, and maintains its payroll levels. The Company filed for forgiveness of the loan on November 17, 2020, and is awaiting a response.

As of December 31, 2020, the Company had long-term notes payable with an outstanding balance of $18,440,000. 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		
	2020	2019	2018
Mueller B.V. 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 2.14%. Payments are made annually.	$ 13,492	$ 12,285	$ 8,586
Mueller B.V. 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.	8,733	8,176	8,778
Mueller B.V. note payable related to mortgage loan secured by real estate, fixed assets, accounts receivable, inventory, and insurance proceeds. Note matures in 2029 with a current variable rate of 1.55%. Payments are made quarterly.	6,088	5,880	11,229
Notes payable related to Mueller B.V. and subsidiaries	$ 28,313	$ 26,341	$ 28,593
Domestic note payable secured by land, buildings, and equipment. Note matures in 2025 with a fixed rate of 2.5%. Payments are made monthly	$ 3,850	$ 2,611	$ 2,861
Domestic note payable pursuant to the Paycheck Protection Program. Note matures in 2022 with a fixed rate of 1.0%.	1,884	–	–
Current maturities	(2,115)	(1,333)	(1,390)
Elimination of intercompany loans	(13,492)	(12,285)	(8,586)
Total notes payable	$ 18,440	$ 15,334	$ 21,478

The principal payments of the notes payable as of December 31, 2020, and for future years are listed below (in thousands):

2021	$ 2,115
2022	2,420
2023	2,423
2024	2,427
2025	2,431
Thereafter	8,739
	$ 20,555

(6) Guarantees:

The Company has two standby letter-of-credit facilities of $5,000,000 and $1,168,000. As of December 31, 2020, there were standby letters of credit totaling $825,000 and $1,168,000, respectively, issued under these facilities, which will expire within one to two years.

The standard warranty provided by the Company is against defects in materials and workmanship and a compliance to specifications for a period of twelve (12) months after shipment of the equipment or completion of the services as applicable in each case.

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, 2020, 2019, and 2018 (in thousands):

	2020	2019	2018
Beginning balance	$ 1,158	$ 1,359	$ 1,177
Costs incurred to satisfy warranty claims	(1,144)	(1,126)	(1,422)
Aggregate warranty reserves made	1,008	1,189	2,159
Aggregate changes to warranty reserves	(163)	(264)	(555)
Ending balance	$ 859	$ 1,158	$ 1,359

(7) Contingencies:

The Company has operating leases with total aggregate future minimum payments of $815,000 and financing leases with total aggregate future minimum payments of $838,000, with terms exceeding one year. As of December 31, 2020, 2019, and 2018, the lease expense amounts were $621,000, $538,000, and $1,179,000, respectively.

The future minimum lease payments for each of the years subsequent to December 31, 2020, will be (in thousands):

	Operating	Finance
2021	$ 277	$ 269
2022	222	213
2023	179	181
2024	79	136
2025	35	34
2026 and after	23	5
	$ 815	$ 838
Less discounted cash flow adjustment	(27)	–
Less interest	–	(32)
Lease liability	$ 788	$ 806

(8) 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; and pure water 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, corporate other income (expense), and impairment of goodwill for 2020. The Company has elected to present goodwill impairment expense of $15,397,000 for the year ended December 31, 2020, in the Other/Corporate classification in the 2020 table below, rather than presenting the goodwill impairment expense within the respective applicable segment. Had the Company presented the goodwill impairment expense within the respective applicable segment:

- The income (loss) before income tax for the Dairy Farm Equipment segment would have been reduced by $12,317,000 to report a (loss) of $(10,688,000) in the 2020 table below.
- The income (loss) before income tax for the Industrial Equipment segment would have been reduced by $3,080,000 to report income of $10,285,000 in the 2020 table below.
- The income (loss) before income tax for the Other/Corporate segment would have been increased by $15,397,000 to report a (loss) of $(1,637,000).

	2020					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 66,155	$ 101,261	$ 31,476	$ 2,224	$ –	$ 201,116
Depreciation and amortization expense	$ 3,964	$ 2,290	$ 75	$ 523	$ 231	$ 7,083
Income (loss) before income tax	$ 1,629	$ 13,365	$ 3,689	$ (182)	$ (17,034)	$ 1,467
Assets	$ 59,142	$ 29,257	$ 1,140	$ 974	$ 30,425	$ 120,938
Additions to property, plant, and equipment	$ 1,496	$ 4,578	$ 200	$ 195	$ 784	$ 7,253

	2019					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 77,997	$ 104,710	$ 11,985	$ 2,485	$ –	$ 197,177
Depreciation and amortization expense	$ 3,417	$ 2,208	$ 70	$ 255	$ 298	$ 6,248
Income (loss) before income tax	$ 973	$ 8,055	$ 739	$ (93)	$ (1,080)	$ 8,594
Assets	$ 70,314	$ 38,537	$ 3,329	$ 1,559	$ 11,155	$ 124,894
Additions to property, plant, and equipment	$ 927	$ 1,996	$ 50	$ 1,084	$ 283	$ 4,340

	2018					
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other/ Corporate	Consolidated
Net sales	$ 83,000	$ 104,889	$ 10,457	$ 2,864	$ –	$ 201,210
Depreciation and amortization expense	$ 3,384	$ 2,005	$ 67	$ 58	$ 280	$ 5,794
Income (loss) before income tax	$ 1,612	$ 2,951	$ 856	$ 354	$ (2,662)	$ 3,111
Assets	$ 76,526	$ 37,365	$ 2,801	$ 522	$ 12,974	$ 130,188
Additions to property, plant, and equipment	$ 3,141	$ 1,231	$ 171	$ 196	$ 99	$ 4,838

Revenues from external customers by product category for the three years ended December 31, 2020, were (in thousands):

	2020	2019	2018
Milk cooling and storage equipment	$ 65,954	$ 77,630	$ 82,527
Process vessels and tanks	119,654	107,740	103,472
Other industrial equipment	15,508	11,807	15,211
	$ 201,116	$ 197,177	$ 201,210

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, 2020, were (in thousands):

	2020	2019	2018
United States	$ 137,168	$ 118,953	$ 118,944
North America (excluding the U.S.)	11,434	14,347	16,694
Asia and the Far East	5,898	8,793	12,454
The Netherlands	25,482	26,577	24,286
EU countries	17,921	27,150	25,285
Europe (non-EU countries)	2,725	696	–
Other areas	488	661	3,547
	$ 201,116	$ 197,177	$ 201,210

During 2020, 2019, and 2018, export sales to any one country were not in excess of 10% of consolidated sales.

During 2020 and 2019, sales to any one customer were in excess of 10% of consolidated sales. Net sales from one domestic customer represented $31,174,000 in 2020, and $21,422,000 in 2019. Net sales from this customer was less than 0.2% in 2018.

Long-lived assets owned by the Company for the three years ended December 31, 2020, were (in thousands):

	2020	2019	2018
North America	$ 13,127	$ 15,628	$ 14,902
Asia and the Far East	958	1,161	1,413
The Netherlands	35,079	47,334	49,062
EU countries	21	–	–
	$ 49,185	$ 64,123	$ 65,377

(9) Subsequent Events:

On February 5, 2021, the Company repurchased 100,000 shares of stock at $40 a share from a shareholder in a private transaction.

This page has been intentionally left blank.

Safe Harbor for Forward-Looking Statements

The President's message on pages 3 and 4 of this Annual Report contains certain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. All statements regarding future performance, growth, sales and earnings projections, conditions, or developments are forward-looking statements. Words such as "anticipates," "believes," "intends," "expects," "may," "will," "should," "could," "plans," "forecasts," "estimates," "predicts," "projects," "potential," "continue," "outlook," and similar expressions may be intended to identify forward-looking statements.

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

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

Independent Auditor's Report

Board of Directors
Paul Mueller Company and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Paul Mueller Company and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), shareholders' investment and cash flows for the years then ended, 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, 2020, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
March 17, 2021

Selected Financial Data – Five-Year Summary for the Years 2020, 2019, 2018, 2017, and 2016

Selected Financial Data – Five-Year Summary

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

	2020	2019	2018	2017	2016
Net sales	$ 201,116	$ 197,177	$ 201,210	$ 167,957	$ 168,021
Net income (loss)	$ (2,557)	$ 6,589	$ 2,639	$ (2,326)	$ (2,281)
Earnings (loss) per common share:					
Basic	$ (2.14)	$ 5.51	$ 2.21	$ (1.94)	$ (1.88)
Diluted	$ (2.14)	$ 5.51	$ 2.21	$ (1.94)	$ (1.88)
Common shares outstanding	1,195,747	1,195,866	1,196,187	1,196,261	1,200,021
Total assets	$ 120,938	$ 124,894	$ 130,188	$ 139,894	$ 104,665
Long-term debt	$ 18,440	$ 15,334	$ 21,478	$ 23,562	$ 4,558
Shareholders' investment	$ 30,544	$ 32,415	$ 27,628	$ 27,981	$ 30,466
Working capital	$ 24,499	$ 9,695	$ 9,352	$ 12,621	$ 7,538
Book value per common share	$ 25.54	$ 27.11	$ 23.10	$ 23.39	$ 25.39
Average number of employees	785	958	967	928	918
Historical exchange rates (Euro to U.S. Dollar):					
Year-end	$ 1.23	$ 1.12	$ 1.14	$ 1.20	$ 1.05
Year-end average	$ 1.14	$ 1.12	$ 1.18	$ 1.13	$ 1.11

Financial Highlights by Quarter (Unaudited) and Market Information by Quarter for the Years 2020 and 2019

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	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
United States:								
Net sales	$ 29,624	$ 27,912	$ 41,902	$ 40,110	$ 41,453	$ 36,168	$ 41,909	$ 40,310
Gross profit	$ 6,730	$ 3,978	$ 11,284	$ 8,999	$ 11,179	$ 8,558	$ 10,626	$ 10,456
Net income (loss)	$ 925	$ (1,056)	$ 3,526	$ 2,877	$ 3,774	$ 2,272	$ 3,959	$ 3,319
The Netherlands:								
Net sales	$ 12,801	$ 14,663	$ 11,588	$ 14,419	$ 10,518	$ 10,310	$ 12,306	$ 15,043
Gross profit	$ 5,128	$ 6,108	$ 5,332	$ 6,117	$ 4,870	$ 4,341	$ 5,637	$ 6,202
Net income (loss)	$ (54)	$ 6	$ 316	$ 80	$ 169	$ (1,083)	$ (15,189)	$ 192
Consolidated:								
Net sales	$ 42,160	$ 41,882	$ 53,223	$ 54,061	$ 51,607	$ 45,968	$ 54,126	$ 55,266
Gross profit	$ 11,861	$ 10,056	$ 16,621	$ 15,121	$ 16,103	$ 12,851	$ 16,218	$ 16,714
Net income (loss)	$ 875	$ (1,080)	$ 3,848	$ 2,964	$ 3,995	$ 1,140	$ (11,275)	$ 3,565
Earnings (loss) per common share:								
Basic	$ .73	$ (.90)	$ 3.22	$ 2.48	$ 3,34	$ .95	$ (9.43)	$ 2.98
Diluted	$ .73	$ (.90)	$ 3.22	$ 2.48	$ 3.34	$ .95	$ (9.43)	$ 2.98

Market Information by Quarter

	2020				**2019**			
	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	$ 27.00	$ 28.15	$ 34.00	$ 35.00	$ 31.50	$ 32.50	$ 31.00
Low	$ 18.00	$ 19.80	$ 24.38	$ 25.15	$ 24.76	$ 25.50	$ 22.60	$ 26.45

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 2020 and 2019.

CORPORATE PROFILE

Headquarters

Paul Mueller Company, Inc.
1600 West Phelps Street
Springfield, Missouri 65802, U.S.A.

General Information

Paul Mueller Company was founded in 1940 and incorporated in 1946 in Missouri. Mueller® products and services are used in a wide variety of industries including animal health, beverage, brewing, chemical, dairy farm, dairy processing, food, heat transfer, HVAC, industrial construction, oil and gas, personal care, pharmaceutical, pure water, tank fabrication, and wine.

Business Segments

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

Field Fabrication
Large field-erected tanks, 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.

SHAREHOLDER INFORMATION

Board of Directors

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

*
**
*** **JOHN J. GHIRARDELLI**
Chairman of the Board,
President, and CEO –
Keystone Digital
Managing Partner –
Qdoba Franchisee,
MO, AR, and OK

* **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 – Controller

MICHAEL R. PAYNE – Secretary

PATRICIA K. WEBSTER – Treasurer

MUELLER B.V.

Managing Director

PAUL MUELLER COMPANY

Transfer Agent

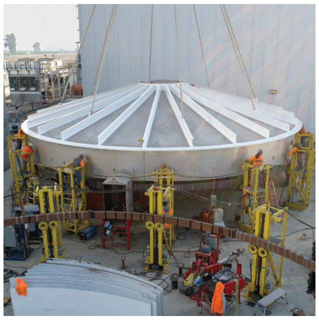
Computershare, Inc.
250 Royall Street
Canton, MA 02021

This page has been intentionally left blank.

Accepted *Challenge*

- Design-Build Commission Project
- Projected Project Length: 80 Weeks
- Six 1 Million-Gallon Vessels
- Per Vessel: 53.5 Feet Diameter | 66 Feet High
- Stainless Steel: 1.5 Million Pounds
- Welds: 5.8 Miles (30,624 Feet)

Save the Juice! In the middle of epic wildfires and a raging pandemic, the Mueller Field Operations team started the build of a not-for-concentrate (NFC) juice storage plant in the breadbasket of California. No project is without its challenges and problems to solve. Our field construction team loves to pour their energy into this day-to-day work. Despite the impact of natural disasters, NFC juice tanks are emerging from the ground, along with a new refrigerated building, a process room, a machine room, and a motor control center! We hope you enjoy some of the photos and details from this project.



This facility, projected to be commissioned in the third quarter of 2021, will produce aseptic juice. The project includes civil engineering, foundations, structural steel, buildings, refrigeration, CIP systems, process piping, pasteurization, tanks, truck loading/unloading stations, a motor control center, and a process controls system.

Investors

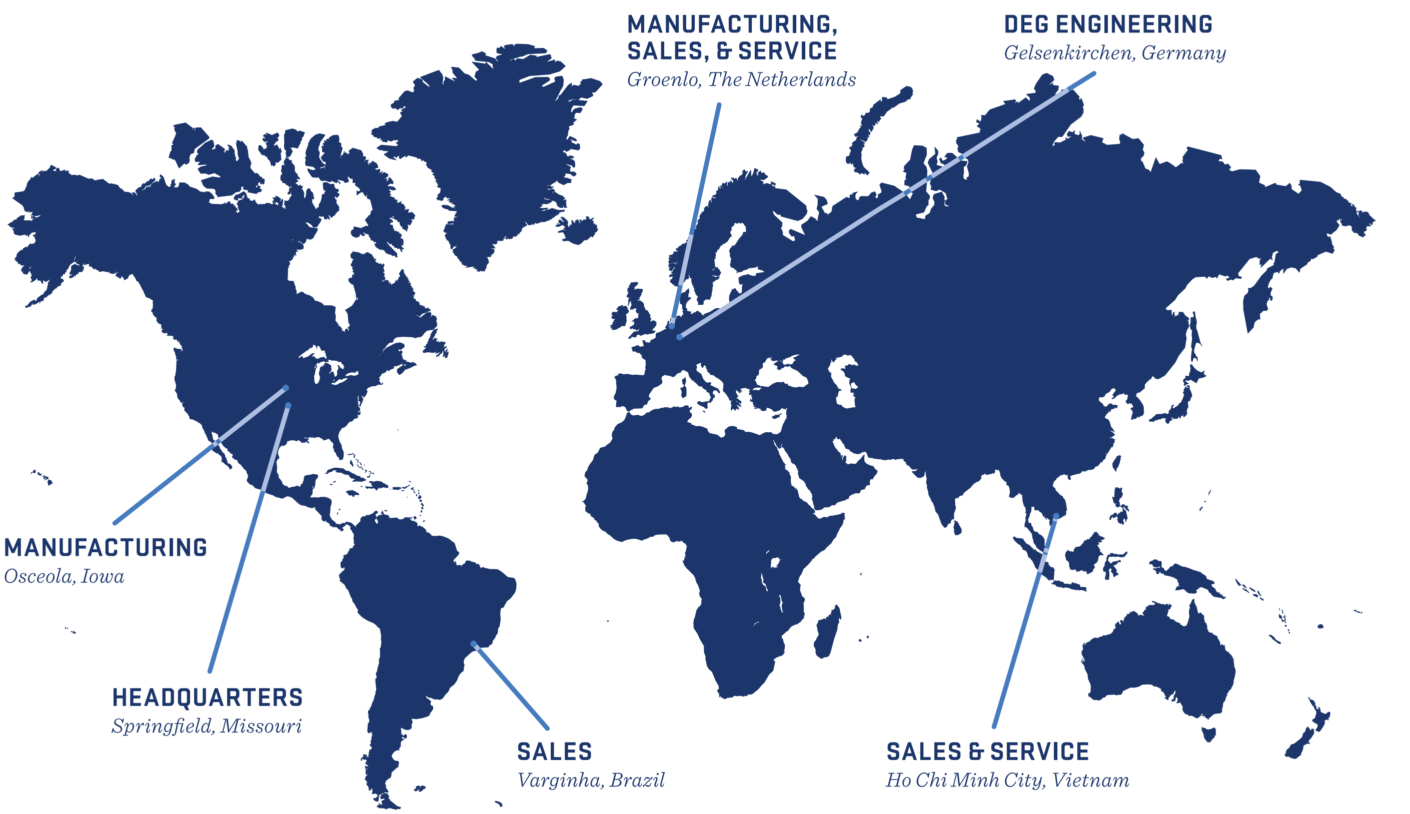
Thank you for your support and continued investment in Paul Mueller Company. We have proven to be resilient in 2020, and 2021 promises many fun challenges and opportunities. We have never felt closer to our customers and their missions, and we are ready for what lies ahead.

— Your Paul Mueller Company Coworkers

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.



1-800-MUELLER | PAULMUELLER.COM