PAUL MUELLER COMPANY

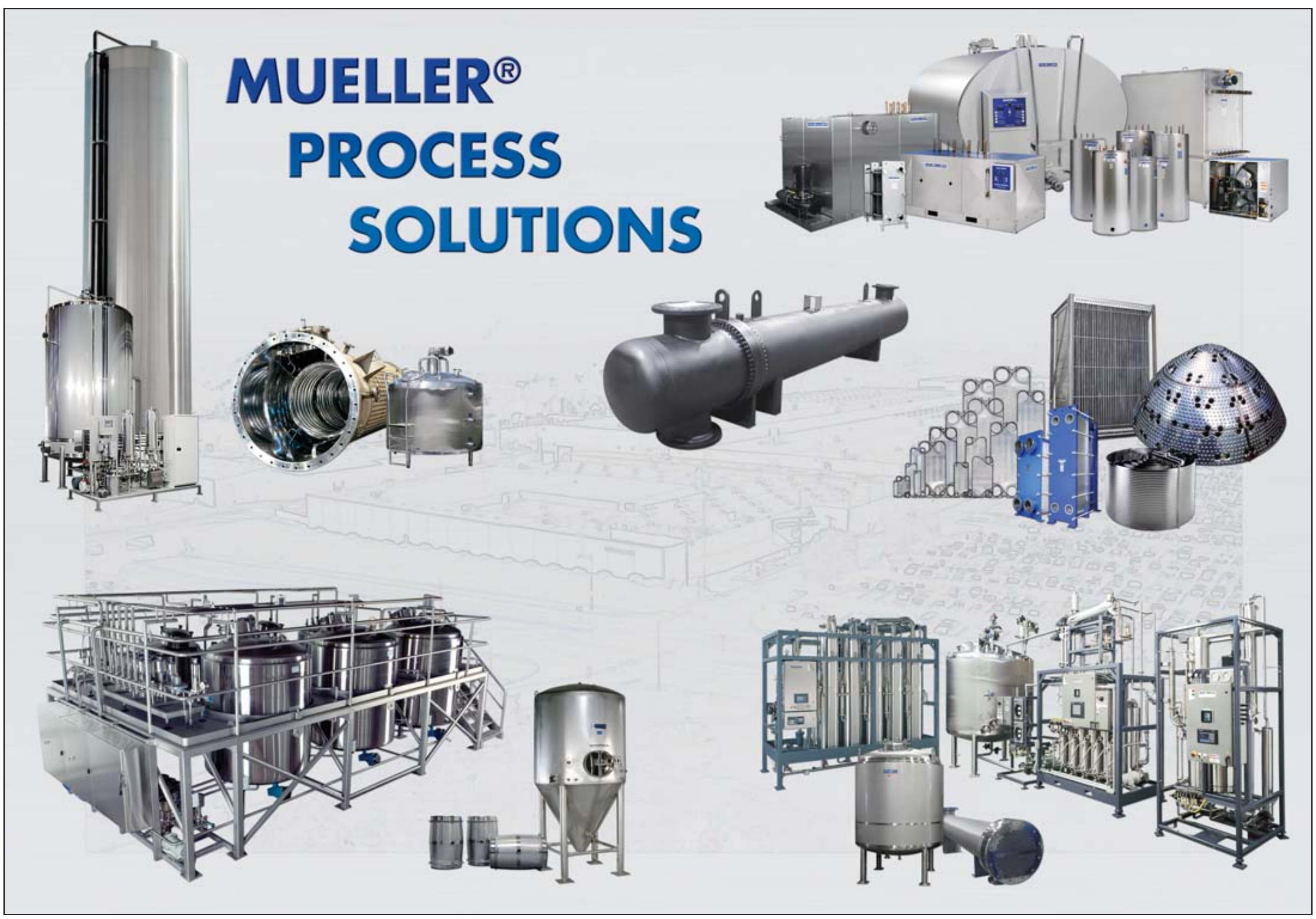
2006 Annual Report

Financial Highlights

Operating Results for the Year	2006	2005
Net Sales	$152,887,000	$138,133,000
Income before Taxes	$ 5,793,000	$ 7,137,000
Provision (Benefit) for Income Taxes	(1,229,000)	520,000
Net Income	$ 7,022,000	$ 6,617,000
Earnings per Common Share:		
Basic	$ 6.10	$ 5.68
Diluted	$ 6.04	$ 5.64
Dividends Declared per Share	$ 2.40	$ 2.40

Year-End Position

	2006	2005
Total Assets	$ 92,816,000	$ 55,171,000
Working Capital	$ 10,678,000	$ 7,705,000
Current Ratio	1.19 : 1	1.28 : 1
Net Worth	$ 20,569,000	$ 21,449,000
Book Value per Share	$ 17.36	$ 18.46
Common Shares Outstanding	1,185,123	1,162,249
Backlog	$116,913,000	$ 37,027,000



Dear Shareholder,

We are pleased to report that 2006 consolidated sales reached $152,887,000, an increase of 11% over 2005, while net income for 2006 was $7,022,000 versus $6,617,000 for 2005. Order entry during 2006 reached a record level of $229,500,000, resulting in increased sales of $14,754,000 and a record backlog of $116,913,000 entering 2007.

Our net income per share for 2006 rose over 7% to $6.10 ($6.04 diluted) as compared to net income per share of $5.68 ($5.64 diluted) for 2005. The 2006 net income included a $3,157,000 noncash reversal of the balance of the valuation allowance recorded in 2004 for all of the Company's net deferred tax assets. Our strong financial performance during the past two years and the December 31, 2006 backlog of $116,913,000 provided the basis for reversing the remaining valuation allowance. Due to rapidly increasing stainless steel prices during 2006, we recorded a significant increase to the LIFO reserve which decreased net income by $2,202,400. In contrast, during 2005, net income increased $427,400 as a result of the reduction in the LIFO reserve.

During 2006, we were able to increase sales and profitability while achieving the highest backlog in Company history. Our 2006 operating income before LIFO improved by 43% as compared to 2005. We were able to do this by taking advantage of the opportunities in the Renewable Fuels industry, while at the same time increasing our market share in our traditional markets.

The 2006 financial performance was accomplished in spite of beginning the year with a low backlog of $37,027,000, losing over $4,000,000 of the backlog during the first quarter due to project cancellations, dealing with rapidly increasing stainless steel prices and the allocation of stainless steel by the mills, and while increasing our manufacturing workforce by over 60% to take advantage of the market opportunities.

The success of 2006 was a direct result of our ability to capitalize on our strengths in manufacturing capacity, material buying power, broad product offering, field installation, construction services, process integration, and our overall reputation for quality. We identified and sold our unused capacity, while at the same time successfully increasing capacity in response to the strong market demand.

Dairy Farm Equipment segment sales were $24,051,000 (107% of budget), new order entry was $24,828,000 (111% of budget), and income before tax was $2,583,000. Our performance in this segment was below that achieved during 2005 due primarily to a 15% decline in milk prices in the domestic market; and the international markets were weaker than during the prior year, particularly in Mexico and Japan.

Industrial Equipment segment sales (before intersegment eliminations) reached $98,716,000, a 6.8% increase over 2005, while the loss before tax was $2,581,000. The loss was a result of the large LIFO provision during 2006 in combination with the significant investment made in training to support our growing workforce. In evaluating individual segment performance, it is important to recognize that the Field Fabrication segment's growth in sales and overall profitability was accomplished in partnership with the Industrial Equipment segment through their joint project sales. The Field Fabrication segment's capabilities are marketed as an extension of our Industrial Equipment segment, with sales and profitability of these two segments naturally linked. We believe we are uniquely positioned to offer a one-stop solution to our customers from the concept stage through plant design, component fabrication, equipment manufacturing, modularization, integration, specialty hauling, installation, and complete plant construction.

Our Transportation segment achieved another year of double-digit revenue growth with sales of $5,474,000 before intersegment eliminations (a 34% increase over 2005), as income before tax increased from $168,000 in 2005 to $199,000 in 2006. The growth in transportation revenue is consistent with the sales growth in the Industrial Equipment and Field Fabrication segments.

The most profitable segment in 2006 was our Field Fabrication segment, which attained a 137% increase in sales while achieving income before taxes of 11% of sales. This segment's performance also led to increased sales in our manufactured equipment and component products as part of our full-service Process Solution marketing strategy. During 2006, our Field Fabrication segment successfully performed projects for such markets as Beverage, Food, Dairy, Renewable Fuels, and Personal Care that varied in scope from equipment installation to complete plant construction.

Based on our backlog and current order entry trends, we are optimistic for another successful year. We expect our growth to continue as a result of the complementary services and products provided by our Industrial Equipment, Transportation, and Field Fabrication segments. This is particularly true for projects that allow us to leverage our full-service capability. The Dairy Farm Equipment segment expects some improvement in the domestic market for 2007, but it will continue to explore international opportunities to complement our strong domestic market share.

An area of concern for 2007 is the price of stainless steel. The mills have been assessing surcharges due to the volatility in the price of nickel, chrome, and molybdenum. Since the beginning of the year, surcharges have increased by 34% for grade 304 stainless steel and 25% for 316 grades. It appears that 2007 may be a year of record-setting high stainless steel prices that could dampen our available business opportunities, although that has not been the case so far this year as order entry has been above budget.

Our collective bargaining agreement expires in April 2007, and negotiation of a new agreement began in March. We have an excellent workforce, and our relationship with our Springfield plant employees is one of trust and mutual respect. Therefore, we expect to reach an agreement on a new contract on a timely basis.

In addition to our solid financial performance in 2006, we made significant strides in positioning the Company for continued growth and success. We successfully identified and sold our unused capacity, while simultaneously beginning a program for maximizing the utilization of our high-bay manufacturing space. As the market demand increased, we immediately implemented a 6-day workweek in conjunction with an aggressive hiring schedule to support a full 3-shift operation. Then in the fourth quarter of the year, in cooperation with the bargaining unit, we implemented a 4-shift operation that essentially moved us to a 7-day/24-hours-per-day operation. Putting into place the workforce required to support our production requirements was a significant undertaking. This effort required a tremendous investment in execution planning, workforce training, and capital equipment to meet the commitments to our customers. As we enter 2007, we are continuing our efforts to maximize the utilization of existing floor space and equipment through effective resource management and continued investment in equipment technology. In 2007, we will position ourselves for additional growth by continuing to organize our operations so we are flexible enough to take advantage of what the market offers.

Our performance during 2006 was the result of the hard work and dedication of all our employees. Their commitment and efforts allowed us to over achieve in terms of our goals for the year. We believe we are well positioned for 2007 to take advantage of the opportunities available in the marketplace.

Matthew T. Detelich

Matthew T. Detelich
President and CEO

March 2007

Corporate Profile

Paul Mueller Company, headquartered in Springfield, Missouri, was incorporated in 1946. For over half a century, we have been building a reputation as an outstanding manufacturer of stainless steel tanks and industrial processing equipment that make the customer's process smoother, faster, and more reliable. Mueller has evolved into a global process-solution provider, offering manufactured equipment and components, integrated process systems, and expanded-scope construction. Our philosophy is simple: we are committed to meeting and exceeding our customers' expectations of value by providing high quality equipment, excellent service, and complete process solutions.

Paul Mueller Company has grown to occupy about 950,000 square feet of manufacturing space in two manufacturing facilities located in Springfield, Missouri, and Osceola, Iowa. Mueller products are used in over 100 countries worldwide on dairy farms and in a wide variety of industrial applications, including food, dairy, and beverage processing; pharmaceutical, biotechnological, and chemical processing; water distillation; heat transfer; HVAC; heat recovery; process cooling; and thermal-energy storage.

Large field-erected vessels, equipment installation, retrofit and/or repair of process systems, process piping, and turnkey design and construction of complete processing plants are services provided by Mueller Field Operations, Inc., a wholly owned subsidiary. Transportation of the Companies' products and backhauls of material and components are handled by another wholly owned subsidiary, Mueller Transportation, Inc. Mueller Montaña de México, S.A. de C.V., a 50%-owned joint venture, provides a presence for industrial equipment in the Mexican market. Mueller Latin America Limitada, a 99.99%-owned Chilean LLC, was established to provide sales of products to the South American market.

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Consolidated Statements of Income
For the Years Ended December 31, 2006, 2005, and 2004

	2006	2005	2004
Net Sales	$ 152,887,170	$ 138,133,454	$ 112,928,442
Cost of Sales	125,441,789	109,983,037	100,261,804
Gross profit	$ 27,445,381	$ 28,150,417	$ 12,666,638
Selling, General and Administrative Expenses	22,146,389	21,304,333	19,341,330
Operating income (loss)	$ 5,298,992	$ 6,846,084	$ (6,674,692)
Other Income (Expense):			
Interest income	$ 304,455	$ 128,038	$ 88,105
Interest expense	(10,556)	(17,831)	(34,760)
Other, net	298,352	189,911	341,167
	$ 592,251	$ 300,118	$ 394,512
Income (loss) before provision for income taxes and equity in (loss) of joint venture	$ 5,891,243	$ 7,146,202	$ (6,280,180)
Provision (Benefit) for Income Taxes	(1,229,000)	520,000	2,241,000
Income (Loss) before Equity in (Loss) of Joint Venture	$ 7,120,243	$ 6,626,202	$ (8,521,180)
Equity in (Loss) of Joint Venture	(98,493)	(9,026)	(83,703)
Net Income (Loss)	$ 7,021,750	$ 6,617,176	$ (8,604,883)
Earnings (Loss) per Common Share:			
Basic	$ 6.10	$ 5.68	$ (7.36)
Diluted	$ 6.04	$ 5.64	$ (7.36)

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

Consolidated Balance Sheets
December 31, 2006 and 2005

Assets

	2006	2005
Current Assets:		
Cash and cash equivalents	$ 6,529,514	$ 3,931,083
Accounts receivable, less reserve for doubtful accounts of $577,863 for 2006 and $441,297 for 2005	31,135,951	22,034,219
Income taxes receivable	152,364	286,502
Costs and estimated earnings in excess of billings	3,355,905	1,145,519
Inventories: Raw materials and components	$ 13,385,449	$ 3,918,091
Work-in-process	6,723,771	1,166,655
Finished goods	1,639,631	964,399
	$ 21,748,851	$ 6,049,145
Prepayments	3,289,855	1,917,256
Total Current Assets	$ 66,212,440	$ 35,363,724
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 3,796,458	$ 3,796,458
Buildings	15,081,104	14,948,229
Fabrication equipment	42,180,280	41,069,244
Transportation, office, and other equipment	14,692,282	13,297,201
Construction-in-progress	2,848,569	729,182
	$ 78,598,693	$ 73,840,314
Less: Accumulated depreciation	57,661,733	55,939,940
	$ 20,936,960	$ 17,900,374
Other Assets	5,666,571	1,907,399
	$ 92,815,971	$ 55,171,497

Liabilities and Shareholders' Investment

	2006	2005
Current Liabilities:		
Current maturities of long-term obligations	$ 147,489	$ 137,739
Accounts payable	12,850,667	5,296,618
Accrued expenses: Income taxes	926,776	863,243
Payroll and benefits	6,405,983	9,760,347
Vacations	3,347,279	2,900,956
Other	1,270,785	845,797
Advance billings	22,018,778	5,643,030
Billings in excess of costs and estimated earnings	8,566,675	2,211,099
Total Current Liabilities	$ 55,534,432	$ 27,658,829
Long-Term Pension Liabilities	15,639,807	4,900,734
Other Long-Term Liabilities	1,072,649	1,162,621
Contingencies	–	–
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,394,038 shares for 2006 and 1,370,475 shares for 2005	$ 1,394,038	$ 1,370,475
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	5,173,038	5,172,394
Retained earnings	27,534,364	23,329,807
	$ 34,101,440	$ 29,872,676
Less: Treasury stock, 208,915 shares for 2006 and 208,226 shares for 2005, at cost	3,794,543	3,770,201
Deferred compensation	–	150,944
Accumulated other comprehensive loss	9,737,814	4,502,218
	$ 20,569,083	$ 21,449,313
	$ 92,815,971	$ 55,171,497

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

Consolidated Statements of Shareholders' Investment For the Years Ended December 31, 2006, 2005, and 2004

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Deferred Compen-sation	Accumulated Other Com-prehensive Loss	Total
Balance – 12-31-2003	$ 1,369,475	$ 5,154,090	$ 31,019,095	$ (2,593,447)	$ (479,992)	$ (5,221,725)	$ 29,247,496
Add (Deduct):							
Net (loss)	–	–	(8,604,883)	–	–	–	(8,604,883)
Other comprehensive loss, net of tax:							
Foreign currency translation adjustment	–	–	–	–	–	8,656	8,656
Change in minimum pension liability	–	–	–	–	–	(853,606)	(853,606)
Comprehensive (loss)	–	–	–	–	–	–	$ (9,449,833)
Dividends, $2.40 per common share	–	–	(2,862,817)	–	–	–	(2,862,817)
Restricted stock issued	1,000	28,000	–	–	(29,000)	–	–
Treasury stock acquired	–	–	–	(82,399)	–	–	(82,399)
Amortization	–	–	–	–	147,926	–	147,926
Balance – 12-31-2004	$ 1,370,475	$ 5,182,090	$ 19,551,395	$ (2,675,846)	$ (361,066)	$ (6,066,675)	$ 17,000,373
Add (Deduct):							
Net income	–	–	6,617,176	–	–	–	6,617,176
Other comprehensive income, net of tax:							
Foreign currency translation adjustment	–	–	–	–	–	32,928	32,928
Change in minimum pension liability	–	–	–	–	–	1,531,529	1,531,529
Comprehensive income	–	–	–	–	–	–	$ 8,181,633
Dividends, $2.40 per common share	–	–	(2,838,764)	–	–	–	(2,838,764)
Restricted stock forfeiture	–	(9,696)	–	(67,860)	77,556	–	–
Treasury stock acquired	–	–	–	(1,026,495)	–	–	(1,026,495)
Amortization	–	–	–	–	132,566	–	132,566
Balance – 12-31-2005	$ 1,370,475	$ 5,172,394	$ 23,329,807	$ (3,770,201)	$ (150,944)	$ (4,502,218)	$ 21,449,313
Add (Deduct):							
Net income	–	–	7,021,750	–	–	–	7,021,750
Other comprehensive income, net of tax:							
Foreign currency translation adjustment	–	–	–	–	–	(12,209)	(12,209)
Change in intangible asset	–	–	–	–	–	(167,007)	(167,007)
Effect of adopting SFAS No. 158	–	–	–	–	–	(5,056,380)	(5,056,380)
Comprehensive income	–	–	–	–	–	–	$ 1,786,154
Effect of adopting SFAS No. 123(R)	–	(150,944)	–	–	150,944	–	–
Dividends, $2.40 per common share	–	–	(2,817,193)	–	–	–	(2,817,193)
Restricted stock issued	23,563	(23,563)	–	–	–	–	–
Restricted stock forfeiture	–	20,020	–	(20,020)	–	–	–
Treasury stock acquired	–	–	–	(4,322)	–	–	(4,322)
Amortization	–	155,131	–	–	–	–	155,131
Balance – 12-31-2006	$ 1,394,038	$ 5,173,038	$ 27,534,364	$ (3,794,543)	$ –	$ (9,737,814)	$ 20,569,083

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2006, 2005, and 2004

	2006	2005	2004
Cash Flows from Operating Activities:			
Net income (loss)	$ 7,021,750	$ 6,617,176	$ (8,604,883)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in loss of joint venture	98,493	9,026	83,703
Bad debt expense (recovery)	15,328	(24,382)	(163,540)
Depreciation and amortization	3,025,699	3,102,417	3,548,876
(Gain) loss on sales of equipment	(99,583)	4,763	12,145
Valuation allowance – change	(3,156,893)	(2,980,800)	6,192,969
Changes in assets and liabilities –			
(Increase) in accounts and notes receivable	(8,982,922)	(1,651,721)	(3,351,996)
(Increase) decrease in costs in excess of estimated earnings and billings	(2,210,386)	(864,410)	1,895,026
(Increase) decrease in inventories	(15,699,706)	4,183,865	7,065,842
Decrease (increase) in prepayments	218,475	230,508	(198,529)
Decrease (increase) in other assets	104,525	(40,771)	(14,139)
Increase (decrease) in accounts payable	7,554,049	(1,422,456)	2,438,759
(Decrease) increase in accrued expenses	(2,419,520)	6,113,115	(5,065,195)
Increase (decrease) in advance billings	16,375,748	(2,155,749)	(6,377,690)
Increase (decrease) in billings in excess of costs and estimated earnings	6,355,576	(4,936,597)	6,686,726
Increase (decrease) in other long-term liabilities	2,834,538	(309,150)	1,612,053
Net Cash Provided by Operating Activities	$ 11,035,171	$ 5,874,834	$ 5,760,127
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sales of equipment	$ 150,893	$ 200	$ –
Additions to property, plant, and equipment	(5,958,463)	(1,953,921)	(1,280,340)
Treasury stock acquisitions	(4,322)	(1,026,495)	(82,399)
Net Cash (Required) by Investing Activities	$ (5,811,892)	$ (2,980,216)	$ (1,362,739)
Cash Flow (Requirements) Provisions from Financing Activities:			
Long-term debt proceeds	$ 261,484	$ 200,505	$ –
Repayment of long-term debt	(69,139)	(330,318)	(417,000)
Dividends paid	(2,817,193)	(2,838,764)	(2,862,817)
Net Cash (Required) by Financing Activities	$ (2,624,848)	$ (2,968,577)	$ (3,279,817)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 2,598,431	$ (73,959)	$ 1,117,571
Cash and Cash Equivalents at Beginning of Year	3,931,083	4,005,042	2,887,471
Cash and Cash Equivalents at End of Year	$ 6,529,514	$ 3,931,083	$ 4,005,042

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

Notes to Consolidated Financial Statements
December 31, 2006, 2005, and 2004

(1) Summary of Accounting Policies:

Principles of Consolidation and Lines of Business – The financial statements include the accounts of Paul Mueller Company ("Company") and its wholly owned subsidiaries: Mueller Transportation, Inc.; Mueller Field Operations, Inc.; and Mueller Latin America Limitada, a 99.99%-owned Chilean LLC ("Companies"). The Company is a global process-solution provider of manufactured equipment and components and integrated process systems for the food, dairy, beverage, chemical, pharmaceutical, biotechnological, and other process industries, as well as the dairy farm market. The Companies also offer expanded-scope construction encompassing large field-erected vessels, equipment installation, retrofit and/or repair of process systems, process piping, and turnkey design and construction of complete processing plants.

Use of Estimates – The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Joint Venture – The Company has 50% interest in Mueller Montaña de México, S.A. de C.V. ("Mueller Montaña"), a Mexican fabricator of industrial equipment. The investment is accounted for under the equity method and is included in other assets on the Consolidated Balance Sheets.

An agreement in principle has been reached whereby the owners of the other 50% interest in Mueller Montaña have agreed to purchase all of the Company's shares for an amount equal to one-half of the book value of Mueller Montaña as of December 31, 2006. The unamortized balance of goodwill ($99,500) was written off during 2006 and was included in equity in loss of joint venture on the Consolidated Statements of Income.

Revenue Recognition and Retainages – Revenue from sales of fabricated products is recognized upon passage of title to the customer. Passage of title may occur at the time of shipment from the Company's dock, at the time of delivery to the customer's location, or when projects are completed in the field and accepted by the customer. For large multi-unit projects that are fabricated in the plant, revenue is recognized under the units-of-delivery method, which is a modification of the percentage-of-completion method of accounting for contracts. The units-of-delivery method recognizes as revenue the contract price of units completed and shipped or delivered to the customer (as determined by the contract) or completed and accepted by the customer for field-fabrication projects. The applicable manufacturing cost of each unit is identified and charged to cost of sales as revenue is recognized.

Revenues from long-term contracts that involve only a few deliverables and that meet the requirements of Statement of Position 81-1 – "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" are recognized under the percentage-of-completion method of accounting. For plant-fabricated projects, percentage of completion is determined by comparing total manufacturing hours incurred to date for each project to estimated total manufacturing hours for each project. For field-fabricated projects, percentage of completion is determined by comparing costs incurred to date for each contract to the estimated total costs for each contract at completion. Estimates of total manufacturing hours and total contract costs for relevant contracts are reviewed continually and, if necessary, updated to properly state the estimates. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Costs and estimated earnings in excess of billings on uncompleted contracts arise when costs have been incurred and revenues have been recorded, but the amounts are not yet billable under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of the contracts. Billings in excess of costs and estimated earnings on uncompleted contracts arise as a result of advance and progress billings on contracts. Costs and estimated earnings on uncompleted contracts and related amounts billed as of December 31, 2006 and 2005 were as follows:

	2006	2005
Costs incurred on uncompleted contracts	$ 32,386,631	$ 15,101,859
Estimated earnings	5,871,069	3,695,764
	$ 38,257,700	$ 18,797,623
Less: Billings to date	43,468,470	19,863,203
	$ (5,210,770)	$ (1,065,580)

Amounts included in the accompanying Consolidated Balance Sheets at December 31, 2006 and 2005 under the following captions were:

	2006	2005
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 3,355,905	$ 1,145,519
Billings in excess of costs and estimated earnings on uncompleted contracts	(8,566,675)	(2,211,099)
	$ (5,210,770)	$ (1,065,580)

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

Contracts with some customers provide for a portion of the sales amount to be retained by the customer for a period of time after completion of the contract. Retainages included in accounts receivable were $509,000 at December 31, 2006 and $1,178,000 at December 31, 2005.

Inventories – The Company's inventories are recorded at the lower of cost on a last-in, first-out ("LIFO") basis or market. Cost of subsidiary inventories is determined on a first-in, first-out ("FIFO") method; and they are not significant to the Consolidated Financial Statements. Cost includes material, labor, and manufacturing burden required in the production of products. Statement of Financial Accounting Standards ("SFAS") No. 151 – "Inventory Costs – an amendment of ARB No. 43, Chapter 4" (issued November 2004), adopted effective for the Company's 2006 calendar year, did not have a material effect on the Company's financial position or results of operations.

Under the FIFO method of accounting, which approximates current cost, Company inventories would have been $12,782,500, $9,286,500, and $9,964,900 higher than those reported at December 31, 2006, 2005, and 2004, respectively.

Research and Development – Research and development costs are charged to expense as incurred and were $709,700 during 2006, $672,900 during 2005, and $842,900 during 2004.

Depreciation Policies – The Companies provide for depreciation expense using principally the double-declining-balance method for new items and the straight-line method for used items. The economic useful lives for the more significant items within each property classification are as follows:

	Years
Buildings	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 reflected in net income currently.

Impairment of Plant and Equipment – If facts and circumstances indicate that the carrying value of identifiable plant and equipment may be impaired, the Company would perform an evaluation of recoverability. If an evaluation would be required, the Company would compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down would be required.

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

	2006	2005	2004
Net income (loss)	$ 7,021,750	$ 6,617,176	$ (8,604,883)
Shares for basic earnings per common share – Weighted-average shares outstanding	1,151,150	1,165,416	1,169,925
Dilutive effect of restricted stock and stock options	11,730	7,062	–
Shares for diluted earnings per common share – Adjusted weighted-average shares outstanding	1,162,880	1,172,478	1,169,925
Earnings (loss) per common share:			
Basic	$ 6.10	$ 5.68	$(7.36)
Diluted	$ 6.04	$ 5.64	$(7.36)

Stock-Based Compensation – The Company adopted SFAS No. 123 (revised 2004) – "Share-Based Payment" on January 1, 2006 using the modified prospective application; and there was no material effect on the Company's financial position or results of operations. Prior to 2006, the Company accounted for stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25 – "Accounting for Stock Issued to Employees" and related interpretations. No stock-based compensation cost had been reflected in net income (loss), as all options granted under the plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grants. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 – "Accounting for Stock-Based Compensation" to stock-based employee and non-employee director compensation for 2005 and 2004.

	Year Ended December 31	
	2005	2004
Net income (loss), as reported	$ 6,617,176	$ (8,604,883)
Less: Stock-based compensation expense determined under fair-value-based method for all awards, net of related tax	35,056	59,217
Pro forma net income (loss)	$ 6,582,120	$ (8,664,100)
Earnings (loss) per common share:		
Basic – as reported	$ 5.68	$(7.36)
Basic – pro forma	$ 5.65	$(7.41)
Diluted – as reported	$ 5.64	$(7.36)
Diluted – pro forma	$ 5.61	$(7.41)

Comprehensive Income – The components of comprehensive income (loss) for the years ended December 31, 2006, 2005, and 2004 were as follows:

	2006	2005	2004
Foreign currency translation adjustment	$ (12,209)	$ 32,928	$ 4,480
Tax (benefit)	–	–	(4,176)
Foreign currency translation adjustment, net of tax	$ (12,209)	$ 32,928	$ 8,656
Change in pension liability	$ (7,631,969)	$ 1,531,529	$ (853,606)
Tax (benefit)	(2,823,829)	–	–
Change in pension liability, net of tax	$ (4,808,140)	$ 1,531,529	$ (853,606)
Reduction of intangible asset	(415,247)	–	–
Other comprehensive income (loss)	$ (5,235,596)	$ 1,564,457	$ (844,950)

Statements of Cash Flows – For purposes of the Consolidated Statements of Cash Flows, the Company considers investments with a maturity of three months or less to be cash equivalents.

Interest and income tax payments for each of the three years ended December 31, 2006 were as follows:

	2006	2005	2004
Interest payments	$ 26,700	$ 23,600	$ 34,400
Income tax payments	$ 1,183,500	$ 1,538,300	$ 161,000

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

	Shares	
	Common Stock Issued	Treasury Stock
Balance, December 31, 2003	1,369,475	175,704
Restricted stock issued	1,000	–
Treasury stock acquisition	–	2,361
Balance, December 31, 2004	1,370,475	178,065
Treasury stock acquisition	–	27,821
Restricted stock forfeiture	–	2,340
Balance, December 31, 2005	1,370,475	208,226
Restricted stock issued	23,563	–
Treasury stock acquisition	–	129
Restricted stock forfeiture	–	560
Balance, December 31, 2006	1,394,038	208,915

(2) Retirement Plans:

The Company has a Profit Sharing and Retirement Savings Plan [401(k) plan] in which substantially all employees are eligible to participate. The plan provides for a match of employees' contributions up to a specified limit. The plan also has a profit-sharing feature whereby an additional match is made if net income reaches predetermined levels established annually by the Board of Directors. The assets of the plan are deposited with a trustee and are invested at the employee's option in one or more investment funds. Total Company contributions to the plan were $779,200 for 2006, $589,400 for 2005, and $370,000 for 2004.

The Company has pension plans covering employees who are represented by a bargaining unit and employees who are not represented by a bargaining unit. Benefits under the plans are based either on final average pay or a flat benefit formula. Employees not represented by a bargaining unit that are first hired after December 31, 2006 will not be covered under the pension plan.

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158 – "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the December 31, 2006 Consolidated Balance Sheets, with a corresponding adjustment to accumulated other comprehensive loss, net of tax. The adjustment to accumulated other comprehensive loss at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs remaining from the initial adoption of SFAS No. 87, all of which were previously netted against the plan's funded status in the Company's Consolidated Balance Sheets pursuant to the provisions SFAS No. 87. These amounts will be subsequently recognized as net periodic pension expense pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension expense in the same periods will be recognized as a component of other comprehensive income (loss). Those amounts will be subsequently recognized as a component of net periodic pension expense on the same basis as the amounts recognized in accumulated other comprehensive loss at the adoption of SFAS No. 158.

The adoption of SFAS No. 158 had no effect on the Company's results of operations for the year ended December 31, 2006 or for any prior period presented. Had the Company not been required to adopt SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum pension liability pursuant to the provisions of SFAS No. 87.

Total pension expense under the plans was $2,777,000 for 2006, $2,960,100 for 2005, and $2,874,600 for 2004. Management's policy is to fund pension contributions that are currently deductible for tax purposes. Contributions of $3,126,500 will be made during 2007, and the amount has been included in long-term pension liabilities on the Consolidated Balance Sheets. The Company uses a January 1 measurement date for its plans.

The following table sets forth the required disclosures for the pension plans at December 31:

	2006	2005
Change in Projected Benefit Obligation –		
Benefit obligation at beginning of year	$ 62,230,600	$ 59,640,300
Service cost	1,620,900	1,635,500
Interest cost	3,550,900	3,468,400
Actuarial loss (gain)	4,208,800	(496,800)
Benefits paid and expenses	(2,198,200)	(2,016,800)
Benefit obligation at end of year	$ 69,413,000	$ 62,230,600
Change in Plan Assets –		
Fair value of plan assets at beginning of year	$ 45,406,100	$ 43,652,000
Actual return on plan assets	5,680,500	2,370,700
Employer contribution	4,876,500	1,400,200
Benefits paid and expenses	(2,198,200)	(2,016,800)
Fair value of plan assets at end of year	$ 53,764,900	$ 45,406,100
Funded Status at End of Year	$ (15,648,100)	$ (16,824,500)

Components of pension expense for the three years were:

	2006	2005	2004
Service cost	$ 1,620,900	$ 1,635,500	$ 1,896,200
Interest cost	3,550,900	3,468,400	3,276,600
Expected return on plan assets	(3,592,300)	(3,354,200)	(3,226,800)
Amortization of prior service cost	199,000	213,100	214,300
Recognized net actuarial loss	998,500	997,300	714,300
Pension expense	$ 2,777,000	$ 2,960,100	$ 2,874,600

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

	2006	2005
Projected benefit obligations	$ 69,413,000	$ 62,230,600
Accumulated benefit obligations	$ 62,809,200	$ 55,612,500
Fair value of plan assets	$ 53,764,900	$ 45,406,100

The decrease in the minimum pension liability included in other comprehensive income for 2005 was $1,531,500.

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

	2006	2005
Discount rate	5.93%	5.80%
Rate of compensation increase	3.00%	3.00%

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

	2006	2005	2004
Discount rate	5.80%	5.75%	6.00%
Expected long-term return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	3.00%	3.00%	4.25%

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, rate of increase in future compensation levels for the applicable plan, and the expected long-term rate of return on plan assets. The discount rate used by the Company for valuing pension liabilities is based on review of high quality corporate bond yields with maturities approximating the remaining life of the projected benefit obligations. The discount rate used to determine pension expense was increased from 5.75% for 2005 to 5.80% for 2006. The effect of the rate increase was to decrease pension expense by $85,200 for 2006. 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 8.50% for 2006 and 2005.

The weighted-average asset allocations of the pension benefit plans at December 31 were as follows:

	2006	2005
Asset Category:		
Fixed income	42%	40%
Equities	53%	57%
Other	5%	3%
	100%	100%

The long-term asset allocation on average will approximate 60% in equities, with 40% in fixed income securities. The objective, on a long-term basis, is to achieve an excess return over the actuarial assumption for the expected long-term rate 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 is customized to each plan's cashflow benefit needs.

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

2007	$ 2,352,500
2008	2,658,800
2009	2,914,600
2010	3,067,000
2011	3,340,000
2012 through 2016	21,169,800
	$ 35,502,700

The incremental effects of adopting the provision of SFAS No. 158 on the Company's Consolidated Balance Sheets as of December 31, 2006 are presented in the following table. The effect of recognizing the additional liability is included in the table below in the row labeled "Effect of adopting SFAS No. 158." The deferred tax asset listed below is recorded in other assets on the Consolidated Balance Sheets.

	Intangible Asset	Accrued Pension Liability	Deferred Tax Asset	Accumulated Other Comprehensive Loss
December 31, 2006 balance	$ 415,200	$ 8,016,200	$ 2,623,500	$ (4,514,400)
Change in intangible asset	(167,000)	–	–	(167,000)
Prior to adopting SFAS No. 158	248,200	8,016,200	2,623,500	(4,681,400)
Effect of adopting SFAS No. 158	(248,200)	7,632,000	2,823,800	(5,056,400)
As reported at December 31, 2006	$ –	$ 15,648,200	$ 5,447,300	$ (9,737,800)

Included in accumulated other comprehensive loss at December 31, 2006 are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized prior service costs of $259,500 ($163,500 net of tax) and unrecognized actuarial losses of $15,057,700 ($9,486,400 net of tax). The prior service cost and actuarial loss included in accumulated other comprehensive loss and expected to be recognized in net periodic pension expense during the year ended December 31, 2007 are $142,200 and $673,800, respectively.

(3) Income Taxes:

The provision (benefit) for taxes on income (loss) from operations included:

	2006	2005	2004
Current tax expense (benefit)	$ 1,238,700	$ 1,720,000	$ (1,880,200)
Deferred, net	689,200	1,780,800	(2,071,800)
Valuation allowance – change	(3,156,900)	(2,980,800)	6,193,000
	$ (1,229,000)	$ 520,000	$ 2,241,000

During 2006, the Company determined that an overall valuation allowance was no longer necessary. The Company's consolidated cumulative three-year income before tax and a backlog of $116,913,000 as of December 31, 2006 provided positive evidence that it is more likely than not that the net deferred tax assets will ultimately be realized. This determination was made based upon the provision of SFAS No. 109 – "Accounting for Income Taxes." This resulted in a noncash credit of $3,156,900 that was recorded during the fourth quarter of 2006 to reduce the balance of a valuation allowance established during 2004 for all of the Company's net deferred tax assets. A noncash credit of $1,200,000 was recorded during the fourth quarter of 2005 to reduce a portion of the valuation allowance established during 2004 due to the Company's improved performance during 2005. The noncash credits are included in the tax provision for the applicable year on the accompanying Consolidated Statements of Income.

During 2004, the Company determined that a valuation allowance was necessary, and a noncash charge of $6,193,000 was recorded to establish a valuation allowance for all of the Company's net deferred tax assets. The charge was included in the tax provision in the accompanying Consolidated Statements of Income for 2004. A consolidated cumulative loss before tax was incurred for the three-year period ended December 31, 2004. A cumulative three-year loss was deemed sufficient objective evidence to preclude the assertion that the ultimate realization of the net deferred tax assets is more likely than not; and a full valuation allowance was required under the provisions of SFAS No. 109.

Deferred tax assets and liabilities arise from differences between financial reporting and tax reporting of assets and liabilities that most often result from differences in the timing of income and expense recognition. The detail of the deferred tax assets and liabilities as of December 31, 2006 and 2005 is shown below.

	2006	2005
Deferred Tax Assets:		
Workers compensation	$ 184,500	$ 219,400
Vacation	1,113,200	963,300
Warranty	31,500	101,900
Doubtful accounts	116,600	94,800
Pensions	5,447,300	2,872,900
Healthcare benefits	283,100	244,300
Inventory	636,300	179,800
Other	412,200	536,600
Tax credit carryforwards	–	1,017,000
	$ 8,224,700	$ 6,230,000
Deferred Tax Liabilities:		
Depreciation	1,677,900	1,817,800
Net	$ 6,546,800	$ 4,412,200
Valuation allowance	55,300	3,212,200
Net Deferred Tax Assets	$ 6,491,500	$ 1,200,000

As of December 31, 2006, net current deferred tax assets were $2,193,300; and net noncurrent deferred tax assets were $4,353,500 and were offset by a valuation allowance of $55,300. Net current deferred tax assets are included in prepayments on the accompanying Consolidated Balance Sheets. Net noncurrent deferred tax assets include $2,823,800, which was recorded as a result of the pension adjustment recorded in compliance with SFAS No. 158; and they are included in other assets on the accompanying Consolidated Balance Sheets. As of December 31, 2005, net current deferred tax assets were $2,791,100 and net noncurrent deferred tax assets were $1,621,100 and were offset by a valuation allowance of $3,212,200. Current deferred tax assets of $1,200,000 at December 31, 2005, are included in prepayments on the accompanying Consolidated Balance Sheets.

A reconciliation between the expected income tax expense at the statutory federal income tax rate (34%) and the reported income tax expense for each of the three years ended December 31, 2006 follows:

	2006	2005	2004
Statutory federal income tax expense (benefit)	$ 2,003,000	$ 2,429,700	$ (2,135,400)
Increase (decrease) in taxes resulting from:			
Tax credits	(290,100)	(905,100)	(1,167,700)
State tax, net of federal benefit	176,700	217,900	(632,900)
Other, net	38,300	(22,500)	(16,000)
Valuation allowance	(3,156,900)	(1,200,000)	6,193,000
	$ (1,229,000)	$ 520,000	$ 2,241,000

(4) Borrowings:

Subsequent to December 31, 2006, the Company increased its bank borrowing facility to $7,000,000 from $4,000,000. The facility expires on May 31, 2007, and management intends to renew the facility. Borrowings under the facility incur interest at the 30-day LIBOR Daily Floating Rate plus 1.75%. At December 31, 2006 and 2005, there were no outstanding borrowings under the facility. The Company was in compliance with all borrowing facility covenants at December 31, 2006 and 2005.

At December 31, 2006, the Company had notes payable with an outstanding balance of $375,300. The notes are secured by plant equipment or transportation equipment. Listed below is a summary of amounts outstanding for notes payable. The current year portion is included in current maturities of long-term obligations in the accompanying Consolidated Balance Sheets.

	Outstanding Balance	Current Maturities	Matures	Current Interest Rate
Note 1	$ 68,300	$ 20,000	2010	0.00%
Note 2	77,500	17,500	2010	6.90%
Note 3	169,500	35,000	2011	6.90%
Note 4	60,000	–	2008	0.00%
	$ 375,300	$ 72,500		

(5) Guarantees:

Subsequent to December 31, 2006, the standby letter-of-credit facility was reduced to $3,000,000 from $6,000,000. As of December 31, 2006, there was a standby letter of credit totaling $750,000 issued under the facility, which will expire within one year.

The Company's provisions for warranty expense have historically been a relatively consistent percentage of sales. Warranty claims tend to occur shortly after product delivery, as a significant portion of the Company's sales are custom-fabricated products built to customer specifications. Warranty claims are reviewed monthly and reserves are adjusted to properly reflect the remaining estimated cost to complete the repair or replacement.

The following is a reconciliation of changes in the warranty reserve for the years ended December 31, 2006 and 2005:

	2006	2005
Beginning balance	$ 560,988	$ 901,871
Costs incurred to satisfy warranty claims	(928,843)	(889,108)
Aggregate warranty reserves made	1,288,656	742,221
Aggregate changes to warranty reserves	54,851	(193,996)
Ending balance	$ 975,652	$ 560,988

(6) Contingencies:

The Company and its subsidiaries are involved in legal proceedings incident to the conduct of their business. It is management's opinion that none of these matters will have a material adverse effect on the consolidated financial position, results of operations, or cash flows.

The Company has operating leases with total aggregate future minimum payments of $282,500 and terms exceeding one year. It is expected that leases will be renewed or replaced as they expire. The future minimum lease payments for each of the years subsequent to December 31, 2006 will be:

2007	$ 156,700
2008	77,400
2009	31,300
2010	7,900
2011	7,900
2012	1,300
	$ 282,500

(7) Segment Data:

The Company has four reportable segments: Industrial Equipment, Dairy Farm Equipment, Field Fabrication, and Transportation. The Industrial Equipment segment includes sales of the following products directly to industrial customers: food, beverage, chemical, and industrial processing equipment; industrial heat transfer equipment; biopharmaceutical equipment; pure-water equipment; thermal-energy storage equipment; and commercial refrigeration equipment. Dairy Farm Equipment segment sales are made to independent dealers for resale and include milk-cooling and storage equipment and accessories, refrigeration units, and heat-recovery equipment for use on dairy farms. 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 delivers products to customers and backhauls materials and components. The segment also transports components for the Field Fabrication segment and performs contract carriage for third parties.

Management evaluates performance and allocates resources based on income or loss before income taxes. The accounting policies of the reportable segments are the same as those described in Summary of Accounting Policies [Note (1)] to these Consolidated Financial Statements.

Reportable segments are managed separately because they offer different products and serve different markets. Industrial Equipment products have been aggregated because they are designed and built to a customer's specifications and they use common processes and resources in the Springfield, Missouri, manufacturing facility. Similar economic conditions affect the long-term financial performance of the product lines included in the Industrial Equipment segment. The Dairy Farm Equipment segment includes standard products that are built to stock in the Osceola, Iowa, manufacturing facility 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 before elimination of intersegment sales. Intersegment eliminations are primarily sales from the Industrial Equipment segment and Transportation segment to the Field Fabrication segment.

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

	2006						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$24,051,414	$98,715,058	$43,731,048	$ 5,473,644	$ 690,719	$(19,774,713)	$152,887,170
Depreciation & amortization expense	$ 223,562	$ 1,853,044	$ 276,311	$ 386,708	$ 286,074	$ –	$ 3,025,699
Income (loss) before income tax	$ 2,582,857	$ (2,581,081)	$ 4,858,845	$ 198,991	$ 831,631	$ –	$ 5,891,243
Assets	$ 11,168,006	$ 54,115,106	$ 7,816,873	$ 3,197,558	$ 16,518,428	$ –	$ 92,815,971
Additions to property, plant & equipment	$ 762,983	$ 3,400,130	$ 370,290	$ 1,319,131	$ 105,929	$ –	$ 5,958,463

	2005						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transpor- tation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$27,246,888	$92,423,561	$18,462,042	$ 4,081,699	$ 1,684,759	$ (5,765,495)	$138,133,454
Depreciation & amortization expense	$ 239,877	$ 1,955,619	$ 396,153	$ 220,965	$ 289,803	$ –	$ 3,102,417
Income before income tax	$ 4,513,292	$ 550,247	$ 1,359,546	$ 168,009	$ 555,108	$ –	$ 7,146,202
Assets	$ 9,087,342	$31,046,042	$ 3,977,779	$ 2,455,537	$ 8,604,797	$ –	$ 55,171,497
Additions to property, plant & equipment	$ 401,188	$ 1,270,926	$ 68,599	$ 118,516	$ 94,692	$ –	$ 1,953,921

	2004						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transpor- tation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$20,548,996	$81,154,456	$ 9,975,683	$ 3,154,814	$ 1,045,293	$ (2,950,800)	$112,928,442
Depreciation & amortization expense	$ 266,847	$ 2,194,000	$ 536,526	$ 170,520	$ 380,983	$ –	$ 3,548,876
Income (loss) before income tax	$ 1,881,911	$ (8,968,734)	$ 128,273	$ 31,500	$ 646,870	$ –	$ (6,280,180)
Assets	$ 8,316,704	$34,269,880	$ 3,191,340	$ 2,511,756	$ 8,792,947	$ –	$ 57,082,627
Additions to property, plant & equipment	$ 231,314	$ 1,012,697	$ 18,402	$ 15,151	$ 2,776	$ –	$ 1,280,340

Revenues from external customers by product category for the three years ended December 31, 2006 were:

	2006	2005	2004
Milk-cooling and storage equipment	$ 21,646,112	$ 24,849,312	$ 18,915,382
Process vessels and tanks	86,199,223	60,928,234	47,830,835
Other industrial equipment	45,041,835	52,355,908	46,182,225
	$152,887,170	$138,133,454	$112,928,442

Revenues from external customers by geographic location are attributed to countries based on the location of the customer and for the three years ended December 31, 2006 were:

	2006	2005	2004
United States	$137,530,181	$105,902,082	$ 93,593,998
North America (excluding the U.S.)	8,257,332	12,894,644	9,913,248
Asia and the Far East	3,121,639	4,364,850	4,180,296
Europe	2,424,143	11,984,453	3,993,742
Other areas	1,553,875	2,987,425	1,247,158
	$152,887,170	$138,133,454	$112,928,442

During the years presented, export sales to any one country were not in excess of 10% of consolidated sales.

All long-lived assets owned by the Company and its subsidiaries are located in the United States.

During 2006, 2005, and 2004, sales to any one customer were not in excess of 10% of consolidated sales.

(8) Long-Term Incentive Plans:

The Company has two stock-based compensation plans: the Amended and Restated 1999 Long-Term Incentive Plan (the "Employee Plan") and the Non-Employee Director Stock Option and Restricted Stock Plan (the "Director Plan").

The Employee Plan provides for restricted stock and nonqualified stock option awards for executives and key employees. An aggregate of 180,000 shares of common stock can be issued under the Employee Plan.

Under the Director Plan, nonemployee directors can receive restricted stock or nonqualified stock options. An aggregate of 60,000 shares can be issued under the Director Plan.

The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective application; and there was no material effect on the Company's financial position or results of operations. Prior to 2006, the Company accounted for stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25 and related interpretations. No stock-based compensation cost had been reflected in net income (loss), as all options granted under the plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grants.

Under the Plans, restricted shares of stock vest five years after the effective date of grant. Compensation expense was computed by multiplying the number of shares granted by the fair market value of the common stock on the date of grant. The expense is being recognized ratably over the vesting period. Compensation expense recognized for the restricted shares was $126,247, $132,566, and $147,926 for the years ended December 31, 2006, 2005, and 2004, respectively. At December 31, 2006, 33,453 shares of restricted stock were outstanding under the Plans. The total remaining unrecognized stock-based compensation cost related to unvested restricted stock at December 31, 2006 was $454,115. This amount will be recognized over a weighted average period of 3.9 years. Changes in the Company's restricted stock for the year ended December 31, 2006 were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005.............	13,750	$ 32.22
Granted during the period	23,563	$ 38.12
Vested during the period	(3,300)	$ 29.00
Forfeited during the period	(560)	$ 35.75
Nonvested at December 31, 2006.............	33,453	$ 36.63

The Company cancelled all outstanding stock options on October 26, 2006, which were concurrently replaced with restricted stock equal to the fair value of the cancelled stock options. The value of the cancelled options was determined using the Black-Scholes model and assumptions consistent with prior years that included a volatility rate of 37.40%, annual dividend rate of $2.40 per share, and interest rate assumptions that ranged from 4.60% to 4.90%. The number of shares of restricted stock issued to replace the value of the cancelled options was determined based on the October 26, 2006 closing price of the Company's stock. Amortization expense of $28,884, related to the stock options, was recorded during 2006. The remaining unamortized expense related to the cancelled options was $35,600 on the date of cancellation and is being amortized ratably over the five-year vesting period of the restricted stock issued in accordance with SFAS No. 123(R).

The following table illustrates the pro forma information if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee and nonemployee director compensation for 2005 and 2004:

	2005	2004
Pro forma net income (loss)	$ 6,582,120	$ (8,664,100)
Pro forma earnings (loss) per common share:		
Basic	$ 5.65	$(7.41)
Diluted	$ 5.61	$(7.41)

(9) Shareholder Rights Plan:

On January 26, 2001, the Board of Directors of the Company adopted an Amended and Restated Rights Agreement ("Rights Agreement") and declared a dividend distribution of one Common Share Purchase Right ("Right") for each share of the Company's common stock outstanding on February 15, 2001.

The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock (an "Acquiring Person") or announces a tender offer that would result in ownership of 15% or more of the Company's common stock. Initially, each Right will entitle shareholders to buy one share of the Company's common stock at an exercise price of $117.25.

If the Company is acquired in a merger or other business combination and its common stock is changed or exchanged, or if 50% or more of its consolidated assets or earning power is sold, each Right will entitle its holder to purchase, at the Right's then-current exercise price, shares of the acquiring company's common stock having a market value of twice the exercise price. Also, if an Acquiring Person acquires 15% or more of the Company's outstanding common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, common stock of the Company having a market value of twice the exercise price. Under either situation, Rights owned by an Acquiring Person will become null and void.

Prior to acquisition by an Acquiring Person of 15% or more of the Company's common stock, the Rights are redeemable at the option of the independent members (as defined in the Rights Agreement) of the Board of Directors at $0.01 per Right. The Rights will expire on January 29, 2011.

Until a Right is exercised, the holder thereof, as such, has no rights as a shareholder of the Company, including the right to vote or to receive dividends. The issuance of the Rights alone has no dilutive effect and does not affect reported earnings per share.

Independent Accountants' Report

Board of Directors
Paul Mueller Company
Springfield, Missouri

We have audited the accompanying consolidated balance sheets of Paul Mueller Company (a Missouri corporation) and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' investment, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Paul Mueller Company as of December 31, 2004, and for the year then ended were audited by other accountants whose report dated February 11, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 and 2005 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paul Mueller Company and Subsidiaries as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Company changed its method of accounting for its defined benefit pension plans in 2006.

BKD, LLP

March 12, 2007

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2006 and 2005

Selected Financial Data – Five-Year Summary

	2006	2005	2004	2003	2002
Net sales	$ 152,887,170	$ 138,133,454	$ 112,928,442	$ 116,766,018	$ 114,149,434
Net income (loss)	$ 7,021,750	$ 6,617,176	$ (8,604,883)	$ 2,018,553	$ 1,889,158
Earnings (loss) per common share:					
Basic	$ 6.10	$ 5.68	$ (7.36)	$ 1.73	$ 1.62
Diluted	$ 6.04	$ 5.64	$ (7.36)	$ 1.71	$ 1.61
Common shares outstanding	1,185,123	1,162,249	1,192,410	1,193,771	1,185,071
Dividends declared per common share	$ 2.40	$ 2.40	$ 2.40	$ 2.40	$ 2.40
Total assets	$ 92,815,971	$ 55,171,497	$ 57,082,627	$ 67,654,860	$ 68,330,756
Long-term obligation, net of current maturities	$ 833,967	$ 708,420	$ 728,876	$ 992,208	$ 1,604,566
Shareholders' investment	$ 20,569,083	$ 21,449,313	$ 17,000,373	$ 29,247,496	$ 29,016,748
Working capital	$ 10,678,008	$ 7,704,895	$ 5,826,016	$ 10,723,341	$ 13,304,896
Book value per common share	$ 17.36	$ 18.46	$ 14.26	$ 24.50	$ 24.49
Average number of employees	948	816	843	1,007	968

Market and Dividend Information by Quarter

	2006 Quarter Ended				2005 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Market Price of Stock								
High	$ 35.75	$ 40.00	$ 39.25	$ 43.00	$ 28.00	$ 31.90	$ 34.70	$ 32.00
Low	$ 27.50	$ 34.00	$ 34.50	$ 35.75	$ 21.50	$ 25.00	$ 28.50	$ 27.00
Cash Dividends								
Declared per share	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60

The Company's common stock is traded over-the-counter based on quotes obtained by market makers from the pink sheets. The market price data was obtained from Pink Sheets LLC.

Financial Highlights by Quarter (Unaudited)
For the Years 2006 and 2005

(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2006	2005	2006	2005	2006	2005	2006 (a)(b)	2005 (c)(d)
Net sales	$ 25,476	$ 32,783	$ 34,115	$ 34,516	$ 36,698	$ 31,322	$ 56,598	$ 39,512
Gross profit	$ 4,918	$ 7,630	$ 5,810	$ 6,545	$ 5,838	$ 5,469	$ 10,879	$ 8,506
Net income	$ 147	$ 2,025	$ 682	$ 345	$ 198	$ 418	$ 5,995	$ 3,829
Earnings per common share:								
Basic	$ 0.13	$ 1.73	$ 0.59	$ 0.29	$ 0.17	$ 0.36	$ 5.21	$ 3.33
Diluted	$ 0.13	$ 1.72	$ 0.59	$ 0.29	$ 0.17	$ 0.36	$ 5.12	$ 3.31

(a) A noncash credit of $3,157,000 was recorded during the fourth quarter of 2006 to reduce the balance of a valuation allowance established during 2004 for all of the Company's net deferred tax assets. The reduction in the valuation allowance is directly related to the improved financial performance of the Company during the past two years, and its backlog of $116,913,000 as of December 31, 2006. The Company's recent performance and the December 31, 2006 backlog provide positive evidence that it is more likely than not that the Company can realize its net deferred tax assets. The noncash credit increased net income by $3,157,000 for the fourth quarter of 2006.

(b) Fourth quarter 2006 results were unfavorably affected by an adjustment to the LIFO reserve, which decreased net income by $285,000, or $0.25 per share ($0.24 diluted). The high year-end inventory level contributed to the adjustment.

(c) A noncash credit of $1,200,000 was recorded during the fourth quarter of 2005 to reduce a portion of the valuation allowance established during 2004 for all of the Company's net deferred tax assets. The noncash credit increased net income by $1,200,000 for the fourth quarter of 2005.

(d) Fourth quarter 2005 results were favorably affected by an adjustment to the LIFO reserve, which increased net income by $1,085,000, or $0.94 per share on a basic and diluted basis.

PAUL MUELLER COMPANY

DIRECTORS

* **MATTHEW T. DETELICH**
President and CEO

WILLIAM L. FUERST
Dean and Henry D. Price Professor
of Business – University of Kansas

* **DONALD E. GOLIK**
Chairman of the Board
Executive Vice President and CFO

** **W. CURTIS GRAFF**
President – W. J. Graff & Assoc.

JAMES D. HLAVACEK
Chairman, CEO, and Owner –
Corporate Development Institute, Inc.

DAVID T. MOORE
Vice President and Secretary

*** **WILLIAM R. PATTERSON**
Principal – Stonecreek
Management L.L.C.

*** **MELVIN J. VOLMERT**
Managing Partner –
Ardent Capital L.L.C.

* Executive Committee Member
** Audit Committee Member
*** Executive & Audit Committee Member

CHAIRMAN EMERITUS

PAUL MUELLER

EXECUTIVE OFFICERS

MATTHEW T. DETELICH
President and CEO

DONALD E. GOLIK
Chairman of the Board
Executive Vice President and CFO

DAVID T. MOORE
Vice President and Secretary

WHOLLY OWNED SUBSIDIARIES

MUELLER TRANSPORTATION, INC.

DIRECTORS

MATTHEW T. DETELICH – Chairman
DONALD E. GOLIK
AARON L. OWEN

OFFICERS

AARON L. OWEN – President
DONALD E. GOLIK – Secretary
GERALD S. MILLER – Treasurer
ALLEN O. CROUCH – Controller

MUELLER FIELD OPERATIONS, INC.

DIRECTORS

MATTHEW T. DETELICH – Chairman
WILLIAM F. ALLISON
DONALD E. GOLIK

OFFICERS

WILLIAM F. ALLISON – President
DONALD E. GOLIK – Secretary
GERALD S. MILLER – Treasurer
ALLEN O. CROUCH – Controller

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Safe Harbor for Forward-Looking Statements

The President's message on pages 2-4 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 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 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; any inadequacy of the Company's intellectual property protection or the potential for third-party claims of infringement; global economic factors, including currency exchange rates; general economic conditions, including interest rates, the rate of inflation, and commercial and consumer confidence; energy prices; governmental laws and regulations affecting domestic and foreign operations, including tax obligations; changes in accounting standards; worldwide political stability; the effects of terrorist activities and resulting political or economic instability, including U.S. military action overseas; and the effect of acquisitions, divestitures, restructurings, product withdrawals, and other unusual events.

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

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