2007 ANNUAL REPORT

PAUL MUELLER COMPANY

Financial Highlights

Operating Results for the Year

	2007	2006
Net Sales	$ 241,147,000	$ 152,887,000
Income before Taxes	$ 14,594,000	$ 5,793,000
Provision (Benefit) for Income Taxes	5,508,000	(1,229,000)
Net Income	$ 9,086,000	$ 7,022,000
Earnings per Common Share:		
Basic	$ 7.88	$ 6.10
Diluted	$ 7.74	$ 6.04
Dividends Declared per Share	$ 2.40	$ 2.40

Year-End Position

	2007	2006
Total Assets	$ 102,132,000	$ 92,816,000
Working Capital	$ 12,567,000	$ 10,678,000
Current Ratio	1.22 : 1	1.19 : 1
Net Worth	$ 27,397,000	$ 20,569,000
Book Value per Share	$22.86	$ 17.36
Common Shares Outstanding	1,198,562	1,185,123
Backlog	$ 69,270,000	$ 116,913,000

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Dear Shareholder,

Reflecting on 2007, I take note of the extraordinary amount of hard work by our employees, the significant investment made in personnel and infrastructure, and the major milestones achieved. We successfully exceeded all budgeted financial goals for 2007, as our consolidated sales were $241,147,000 and consolidated net income was $9,086,000, compared to sales of $152,887,000 and net income of $7,022,000 for 2006.

In challenging the organization with a top line and bottom line growth strategy, we recognized that the infrastructure and tools in place had to be updated to support our plan. Over the last year, we undertook the largest capital equipment expenditure initiative in recent history of the Company, made significant infrastructure changes to improve manufacturing floor utilization, sold to maximize the utilization of the available capacity, put in place significant training capability, and worked "outside the box" to develop processes and resources that increased our ability to flex to the needs of the marketplace. As a result, our order entry, sales, and profit for 2007 were all at record levels.

During 2007, consolidated sales reached $241,147,000, a 58% increase over 2006. The resulting pretax income was $14,631,000, an increase of 148% over 2006. Using income before tax allows the comparison between years to be made without the positive effect on net income for 2006 of the $3,157,000 reduction in the valuation allowance for the Company's net deferred tax assets.

Our Dairy Farm Equipment segment achieved sales of $26,666,000 during 2007, an 11% increase over 2006 performance. Overall margins were below budget by over 4%, while income before tax as a percent of sales was down from 10.7% for 2006 to approximately 7% for 2007. The frequent and significant increases in stainless steel surcharges during 2007 contributed to a decline in the margin. Also, the segment's margin was adversely affected by export sales of Dairy Farm Equipment, as the pricing was very competitive due to a number of aggressive suppliers in the markets we serve.

Industrial Equipment segment sales were $167,967,000, up 70% compared to 2006; and income before tax was $5,071,000. Income before tax for 2007 was 3% of sales as compared to 2006, when the loss before tax was 2.6% of sales. We entered 2007 with strong backlog in both our traditional Processing Equipment and our BioPharm businesses. The most significant favorable impact was the Shell and Tube product line for the Processing Equipment business; and in the BioPharm business, the Modular Systems offering contributed significantly to sales and income before tax. At the same time, our Heat Transfer business had one of its best years in recent history. The entire Heat Transfer team contributed to maximize the manufacturing capacity utilized, pushing us to the limit for the first time in many years; and as a result, we achieved record order entry and sales.

In addition to strong sales for nearly every product line in the Industrial Equipment segment during 2007, the significant improvement in profitability was made possible by a focus on obtaining work and an intensive execution effort by all available manufacturing resources. Achieving the record performance for this segment required diligent work and close cooperation among all areas of our Company.

The Transportation segment's 2007 sales were 13.7% higher than 2006 sales, while attaining a 4.5% pretax profit compared to a 3.6% pretax profit in the prior year. This segment's success was driven by the increased sales volume of the other segments which contributed to increased freight revenue and by more effective operational utilization of our equipment.

During 2007, our most profitable segment, both as a percent of sales and in total dollars of income before tax, was again Field Fabrication. This segment's sales increased by over 24.4% to $54,419,000, while achieving overall pretax profitability of 14%. Working in conjunction with the Industrial Equipment segment to secure projects that required both shop and fieldwork, the Field Fabrication segment was able to achieve an all-time record for both sales and profitability.

In April 2007, we successfully signed a new three-year collective bargaining agreement for the Springfield manufacturing facility. This agreement and the financial success achieved in 2007 are the direct result of all parties working together.

In February 2008, we signed a Non Binding Letter of Intent to acquire all of the outstanding shares of Paltrok Beheer B.V., which has a manufacturing facility in Lichtenvoorde, the Netherlands. Paltrok has been a licensee of the Company for twenty years for the manufacture and sale of Dairy Farm Equipment using Mueller designs and trademarks for the European Market. Paltrok has its roots in Mueller Europa B.V., the former wholly owned subsidiary of the Company that was located in the Netherlands. The acquisition is expected to close in the beginning of the second quarter of 2008 and will provide access to a highly skilled workforce to support our marketing efforts throughout Europe, principally for Dairy Farm and Heat Transfer Equipment.

We entered 2007 with a backlog of $116, 913,000, with $97,729,000 in shop work and $19,184,000 in field-fabrication work. The backlog represented 49% of the total 2007 sales. As we began 2008, our backlog was $69,270,000, of which $63,375,000 was shop work and the balance was field-fabrication work. We will be focused on rebuilding our backlog with the knowledge that we face a weaker economy and an upcoming presidential election. Our expectations remain high for 2008, while at the same time our budget reflects a more conservative projection for the first part of 2008, with expected increased activity in the last two quarters of 2008.

We achieved many firsts during 2007, and none were more satisfying than having earned a 100% match for all employee-qualified contributions to our 401(k) Plan for the first time since the Plan's inception in 1989. I would like to recognize the extensive hard work of all our employees, the confidence and support of our valued customers, and the patience of our shareholders. We have achieved much over the last few years, but the most satisfying realization is that our employees are committed and determined to achieve even more.

Matthew T. Detelich
President and CEO

March 2008

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.

Consolidated Statements of Income
For the Years Ended December 31, 2007, 2006, and 2005

	2007	2006	2005
Net Sales	$ 241,147,181	$ 152,887,170	$ 138,133,454
Cost of Sales	200,858,816	125,441,789	109,983,037
Gross profit	$ 40,288,365	$ 27,445,381	$ 28,150,417
Selling, General and Administrative Expenses	25,274,653	22,146,389	21,304,333
Operating income	$ 15,013,712	$ 5,298,992	$ 6,846,084
Other Income (Expense):			
Interest income	$ 369,803	$ 304,455	$ 128,038
Interest expense	(71,960)	(10,556)	(17,831)
Other, net	(680,244)	298,352	189,911
	$ (382,401)	$ 592,251	$ 300,118
Income before provision for income taxes and equity in (loss) of joint venture	$ 14,631,311	$ 5,891,243	$ 7,146,202
Provision (Benefit) for Income Taxes	5,508,000	(1,229,000)	520,000
Income before Equity in (Loss) of Joint Venture	$ 9,123,311	$ 7,120,243	$ 6,626,202
Equity in (Loss) of Joint Venture	(36,866)	(98,493)	(9,026)
Net Income	$ 9,086,445	$ 7,021,750	$ 6,617,176
Earnings per Common Share:			
Basic	$ 7.88	$ 6.10	$ 5.68
Diluted	$ 7.74	$ 6.04	$ 5.64

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

Consolidated Balance Sheets
December 31, 2007 and 2006

	2007	2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,415,640	$ 6,529,514
Accounts receivable, less reserve for doubtful accounts of $784,564 for 2007 and $577,863 for 2006	44,319,124	31,288,315
Costs and estimated earnings in excess of billings	2,126,481	3,355,905
Inventories: Raw materials and components	$ 10,886,672	$ 13,385,449
Work-in-process	5,146,935	6,723,771
Finished goods	1,959,683	1,639,631
	$ 17,993,290	$ 21,748,851
Prepayments	3,930,739	3,289,855
Total Current Assets	$ 69,785,274	$ 66,212,440
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 4,037,677	$ 3,796,458
Buildings	16,251,507	15,081,104
Fabrication equipment	49,573,292	42,180,280
Transportation, office, and other equipment	15,939,557	14,692,282
Construction-in-progress	1,864,028	2,848,569
	$ 87,666,061	$ 78,598,693
Less: Accumulated depreciation	60,251,444	57,661,733
	$ 27,414,617	$ 20,936,960
Other Assets	4,931,959	5,666,571
	$102,131,850	$ 92,815,971
Liabilities and Shareholders' Investment		
Current Liabilities:		
Current maturities of long-term obligations	$ 1,085,957	$ 147,489
Accounts payable	12,312,165	12,850,667
Accrued expenses: Income taxes	1,896,767	926,776
Payroll and benefits	9,579,624	6,405,983
Vacations	3,805,474	3,347,279
Other	1,754,912	1,270,785
Advance billings	18,102,744	22,018,778
Billings in excess of costs and estimated earnings	8,680,150	8,566,675
Total Current Liabilities	$ 57,217,793	$ 55,534,432
Long-Term Pension Liabilities	14,434,424	15,639,807
Other Long-Term Liabilities	3,082,699	1,072,649
Contingencies	–	–
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,408,051 shares for 2007 and 1,394,038 shares for 2006	$ 1,408,051	$ 1,394,038
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	5,438,362	5,173,038
Retained earnings	33,753,254	27,534,364
	$ 40,599,667	$ 34,101,440
Less: Treasury stock, 209,489 shares for 2007 and 208,915 shares for 2006, at cost	3,827,261	3,794,543
Accumulated other comprehensive loss	9,375,472	9,737,814
	$ 27,396,934	$ 20,569,083
	$102,131,850	$ 92,815,971

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

Consolidated Statements of Shareholders' Investment For the Years Ended December 31, 2007, 2006, and 2005

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Deferred Compen-sation	Accumulated Other Com-prehensive Loss	Total
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)
Deferred compensation	–	–	–	–	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)
Comprehensive income	–	–	–	–	–	–	$ 6,842,534
Effect of adopting SFAS No. 158	–	–	–	–	–	(5,056,380)	(5,056,380)
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)
Deferred compensation	–	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
Add (Deduct):							
Net income	–	–	9,086,445	–	–	–	$ 9,086,445
Other comprehensive income, net of tax:							
Foreign currency translation adjustment	–	–	–	–	–	(3,234)	(3,234)
Change in pension liability	–	–	–	–	–	365,576	365,576
Comprehensive income	–	–	–	–	–	–	$ 9,448,787
Dividends, $2.40 per common share	–	–	(2,867,555)	–	–	–	(2,867,555)
Restricted stock issued	14,013	(14,013)	–	–	–	–	–
Tax benefit of stock compensation	–	42,595	–	–	–	–	42,595
Treasury stock acquired	–	–	–	(32,718)	–	–	(32,718)
Deferred compensation	–	236,742	–	–	–	–	236,742
Balance – 12-31-2007	$ 1,408,051	$ 5,438,362	$ 33,753,254	$ (3,827,261)	$ –	$ (9,375,472)	$ 27,396,934

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2007, 2006, and 2005

	2007	2006	2005
Cash Flows from Operating Activities:			
Net income	$ 9,086,445	$ 7,021,750	$ 6,617,176
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in loss of joint venture	36,866	98,493	9,026
Bad debt expense (recovery)	42,442	15,328	(24,382)
Depreciation and amortization	4,256,311	3,025,699	3,102,417
(Gain) loss on sales of equipment	(31,376)	(99,583)	4,763
Valuation allowance – change	–	(3,156,893)	(2,980,800)
Changes in assets and liabilities –			
(Increase) in accounts and notes receivable	(13,073,251)	(8,982,922)	(1,651,721)
Decrease (increase) in costs in excess of estimated earnings and billings	1,229,424	(2,210,386)	(864,410)
Decrease (increase) in inventories	3,755,561	(15,699,706)	4,183,865
(Increase) decrease in prepayments	(640,884)	218,475	230,508
Decrease (increase) in other assets	859,049	104,525	(40,771)
(Decrease) increase in accounts payable	(495,906)	7,554,049	(1,422,456)
Increase (decrease) in accrued expenses	5,085,954	(2,419,520)	6,113,115
(Decrease) increase in advance billings	(3,916,034)	16,375,748	(2,155,749)
Increase (decrease) in billings in excess of costs and estimated earnings	113,475	6,355,576	(4,936,597)
(Decrease) increase in other long-term liabilities	(241,002)	2,834,538	(309,150)
Net Cash Provided by Operating Activities	$ 6,067,074	$ 11,035,171	$ 5,874,834
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sales of equipment	$ 67,375	$ 150,893	$ 200
Additions to property, plant, and equipment	(10,533,226)	(5,958,463)	(1,953,921)
Treasury stock acquisitions	(32,718)	(4,322)	(1,026,495)
Net Cash (Required) by Investing Activities	$(10,498,569)	$ (5,811,892)	$ (2,980,216)
Cash Flow (Requirements) Provisions from Financing Activities:			
Long-term debt proceeds	$ 2,916,383	$ 261,484	$ 200,505
Repayment of long-term debt	(731,207)	(69,139)	(330,318)
Dividends paid	(2,867,555)	(2,817,193)	(2,838,764)
Net Cash (Required) by Financing Activities	$ (682,379)	$ (2,624,848)	$ (2,968,577)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (5,113,874)	$ 2,598,431	$ (73,959)
Cash and Cash Equivalents at Beginning of Year	6,529,514	3,931,083	4,005,042
Cash and Cash Equivalents at End of Year	$ 1,415,640	$ 6,529,514	$ 3,931,083

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

Notes to Consolidated Financial Statements
December 31, 2007, 2006, and 2005

(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.

Mueller Latin America Limitada ceased operations effective September 30, 2007, and dissolution of the company is in process. The effect of the dissolution will have no material effect on the Consolidated Financial Statements.

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; and the equity in the income (loss) is included on the Consolidated Income Statements.

An agreement 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 $740,000 (the book value of the investment as of December 31, 2007 was $698,055). It is expected that the transaction will be completed in 2008.

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.

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,

are updated to properly state the estimates. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Costs and estimated earnings in excess of billings on uncompleted contracts arise when costs have been incurred and revenues have been recorded, but the amounts are not yet billable under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of the contracts. Billings in excess of costs and estimated earnings on uncompleted contracts arise as a result of advance and progress billings on contracts. Costs and estimated earnings on uncompleted contracts and related amounts billed as of December 31, 2007 and 2006 were as follows:

	2007	2006
Costs incurred on uncompleted contracts	$ 61,638,206	$ 32,386,631
Estimated earnings	11,522,147	5,871,069
	$ 73,160,353	$ 38,257,700
Less: Billings to date	79,714,022	43,468,470
	$ (6,553,669)	$ (5,210,770)

Amounts included in the accompanying Consolidated Balance Sheets at December 31, 2007 and 2006 under the following captions were:

	2007	2006
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,126,481	$ 3,355,905
Billings in excess of costs and estimated earnings on uncompleted contracts	(8,680,150)	(8,566,675)
	$ (6,553,669)	$ (5,210,770)

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 $958,000 at December 31, 2007 and $509,000 at December 31, 2006.

Sales, use, and other taxes collected from customers are excluded from revenue.

Trade Accounts Receivable – Trade accounts receivable, reduced by a reserve for doubtful accounts, are reported at the resulting net realizable value on the Consolidated Balance Sheets. The Companies' 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.

Inventories – The Company's inventories are recorded at the lower of cost on a last-in, first-out ("LIFO") basis or market. Cost of the subsidiaries' 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 $14,415,800, $12,782,500, and $9,286,500 higher than those reported at December 31, 2007, 2006, and 2005, respectively.

Research and Development – Research and development costs are charged to expense as incurred and were $591,000 during 2007, $709,700 during 2006, and $672,900 during 2005.

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 per common share:

	2007	2006	2005
Net income	$ 9,086,445	$ 7,021,750	$ 6,617,176
Shares for basic earnings per common share – Weighted-average shares outstanding	1,153,482	1,151,150	1,165,416
Dilutive effect of restricted stock and stock options	19,892	11,730	7,062
Shares for diluted earnings per common share – Adjusted weighted-average shares outstanding	1,173,374	1,162,880	1,172,478
Earnings (loss) per common share:			
Basic	$ 7.88	$ 6.10	$ 5.68
Diluted	$ 7.74	$ 6.04	$ 5.64

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, 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 and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123(R) – "Accounting for Stock-Based Compensation" to stock-based employee and nonemployee director compensation for 2005.

	Year Ended Dec. 31, 2005
Net income, as reported	$ 6,617,176
Less: Stock-based compensation expense determined under fair-value-based method for all awards, net of related tax	35,056
Pro forma net income	$ 6,582,120
Earnings per common share:	
Basic – as reported	$ 5.68
Basic – pro forma	$ 5.65
Diluted – as reported	$ 5.64
Diluted – pro forma	$ 5.61

Comprehensive Income – The components of other comprehensive income (loss) for the years ended December 31, 2007, 2006, and 2005 were as follows:

	2007	2006	2005
Foreign currency translation adjustment	$ (3,234)	$ (12,209)	$ 32,928
Tax	–	–	–
Foreign currency translation adjustment, net of tax	$ (3,234)	$ (12,209)	$ 32,928
Change in pension liability	$ 201,039	$ –	$ 1,531,529
Tax	164,537	–	–
Change in pension liability, net of tax	$ 365,576	$ –	$ 1,531,529
Reduction of intangible asset	–	(167,007)	–
Other comprehensive income (loss)	$ 362,342	$ (179,216)	$ 1,564,457
Effect of adopting SFAS No. 158	$ –	$ (5,056,380)	$ –

Included in the tax for the change in pension liability for 2007 is a $241,937 tax asset due to a change in the effective tax rate from 2006 and a $77,400 decrease in the tax asset related to the reduction in the pension liability.

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 made during the three years ended December 31, 2007 were as follows:

	2007	2006	2005
Interest payments	$ 77,300	$ 26,700	$ 23,600
Income tax payments	$ 3,592,700	$ 1,183,500	$ 1,538,300

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, 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
Restricted stock issued	14,013	–
Treasury stock acquisition	–	574
Balance, December 31, 2007	1,408,051	209,489

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

(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 $1,684,400 for 2007, $779,200 for 2006, and $589,400 for 2005.

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 a flat benefit formula or 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. Employees represented by the bargaining unit that are first hired after June 30, 2007 will not be covered under the applicable 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 on 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 $1,966,000 for 2007, $2,777,000 for 2006, and $2,960,100 for 2005. Management's policy is to fund pension contributions that are currently deductible for tax purposes. Contributions of $4,964,900 will be made during 2008. 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:

	2007	2006
Change in Projected Benefit Obligation –		
Benefit obligation at beginning of year	$ 69,413,000	$ 62,230,600
Service cost	1,717,200	1,620,900
Interest cost	4,051,700	3,550,900
Actuarial (gain) loss	(649,900)	4,208,800
Benefits paid and expenses	(2,375,800)	(2,198,200)
Benefit obligation at end of year	$ 72,156,200	$ 69,413,000
Change in Plan Assets –		
Fair value of plan assets at beginning of year	$ 53,764,900	$ 45,406,100
Actual return on plan assets	3,352,900	5,680,500
Employer contributions	2,971,300	4,876,500
Benefits paid and expenses	(2,375,800)	(2,198,200)
Fair value of plan assets at end of year	$ 57,713,300	$ 53,764,900
Funded Status at End of Year	$ (14,442,900)	$ (15,648,100)

Components of pension expense for the three years were:

	2007	2006	2005
Service cost	$ 1,717,200	$ 1,620,900	$ 1,635,500
Interest cost	4,051,700	3,550,900	3,468,400
Expected return on plan assets	(4,618,900)	(3,592,300)	(3,354,200)
Amortization of prior service cost	142,200	199,000	213,100
Recognized net actuarial loss	673,800	998,500	997,300
Pension expense	$ 1,966,000	$ 2,777,000	$ 2,960,100

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

	2007	2006
Projected benefit obligations	$ 72,156,200	$ 69,413,000
Accumulated benefit obligations	$ 64,927,900	$ 62,809,200
Fair value of plan assets	$ 57,713,300	$ 53,764,900

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:

	2007	2006
Discount rate	6.42%	5.93%
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:

	2007	2006	2005
Discount rate	5.93%	5.80%	5.75%
Expected long-term return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	3.00%	3.00%	3.00%

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. These excess assets were assumed to earn no reinvestment return so that the underlying discount rate was not artificially increased by these hypothetical returns. The discount rate used to determine pension expense was increased from 5.80% for 2006 to 5.93% for 2007. The effect of the rate increase was to decrease pension expense by $141,200 for 2007. 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 2007 and for 2006.

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

	2007	2006
Asset Category:		
Fixed income	26%	42%
Equities	66%	53%
Other	8%	5%
	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 cash-flow benefit needs.

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

2008	$ 2,720,400
2009	2,930,300
2010	3,068,800
2011	3,362,000
2012	3,736,300
2013 through 2017	23,567,600
	$ 39,385,400

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 was 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	$ 8,016,100	$ 2,623,500	$ (4,514,400)
Change in intangible asset	(167,000)	–	–	(167,000)
Prior to adopting SFAS No. 158	$ 248,200	$ 8,016,100	$ 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	$ –	$ 15,648,100	$ 5,447,300	$ (9,737,800)

Included in accumulated other comprehensive loss at December 31, 2007 are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized prior service costs of $117,300 ($72,100 net of tax) and unrecognized actuarial losses of $14,998,900 ($9,224,300 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, 2008 are $83,500 and $597,800, respectively.

(3) Income Taxes:

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

	2007	2006	2005
Current tax expense	$ 5,468,100	$ 1,238,700	$ 1,720,000
Deferred, net	36,600	689,200	1,780,800
Valuation allowance – change	3,300	(3,156,900)	(2,980,800)
	$ 5,508,000	$ (1,229,000)	$ 520,000

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 was more likely than not that the net deferred tax assets would 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.

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, 2007 and 2006 is shown below:

	2007	2006
Deferred Tax Assets:		
Workers compensation	$ 418,500	$ 184,500
Vacation	1,317,100	1,113,200
Warranty	95,500	31,500
Doubtful accounts	302,100	116,600
Pensions	4,650,600	5,447,300
Healthcare benefits	379,500	283,100
Inventory	823,200	636,300
Other	393,300	412,200
	$ 8,379,800	$ 8,224,700
Deferred Tax Liabilities:		
Depreciation	1,720,800	1,677,900
Net	$ 6,659,000	$ 6,546,800
Valuation allowance	58,600	55,300
Net Deferred Tax Assets	$ 6,600,400	$ 6,491,500

As of December 31, 2007, net current deferred tax assets were $3,078,000; and net noncurrent deferred tax assets were $3,581,000 and were offset by a valuation allowance of $58,600. Net current deferred tax assets are included in prepayments and net noncurrent deferred tax assets are included in other assets on the accompanying Consolidated Balance Sheets. 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 noncurrent deferred tax assets as of December 31, 2006 included $2,823,800, which was recorded as a result of the pension adjustment recorded in compliance with SFAS No. 158.

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, 2007 follows:

	2007	2006	2005
Statutory federal income tax expense	$ 4,974,600	$ 2,003,000	$ 2,429,700
Increase (decrease) in taxes resulting from:			
Tax credits	(227,900)	(290,100)	(905,100)
State tax, net of federal benefit	670,400	176,700	217,900
Other, net	87,600	38,300	(22,500)
Valuation allowance	3,300	(3,156,900)	(1,200,000)
	$ 5,508,000	$ (1,229,000)	$ 520,000

The Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 – "Accounting for Uncertainty in Income Taxes" ("FIN 48") in July 2006, with an effective date of January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. For a benefit to be recognized, it must be more-likely-than-not that the tax position will be sustained upon examination by the applicable taxing authority. Additionally, FIN 48 provides guidance on derecognition, classification, accounting in interim periods, and disclosure requirements for uncertain tax positions.

The Company adopted the provisions of FIN 48 on January 1, 2007. No adjustment was required to retained earnings for unrecognized income tax benefits as a result of the implementation of FIN 48, as a reserve for uncertain tax positions had been recorded previously. The balance listed below was reclassified from current liabilities to long-term liabilities in accordance with FIN 48. A reconciliation of

the beginning and ending amounts of unrecognized tax benefits follows. The balance at December 31, 2007 is included in other long-term liabilities on the accompanying Consolidated Balance Sheets:

Balance at January 1, 2007	$ 824,200
Additions based on tax positions related to the current year	116,600
Additions for tax positions of prior years	–
Reductions for tax positions of prior years	–
Settlements or lapse of applicable statutes	–
Balance at December 31, 2007	$ 940,800

The Company's U.S. federal income tax returns for tax years 2004 and forward remain subject to examination by the Internal Revenue Service. State statutes vary, but state income tax returns are generally subject to examination from 2001 forward. The unrecognized benefits of $940,800 as of December 31, 2007 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 recorded was not significant for the year ended December 31, 2007.

(4) Borrowings:

The Company has a bank borrowing facility of $7,000,000. The facility expires on May 31, 2008 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, 2007 and 2006, there were no outstanding borrowings under the facility. The Company was in compliance with all borrowing facility covenants at December 31, 2007 and 2006.

At December 31, 2007, the Company had notes payable with an outstanding balance of $2,602,800. Certain 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 on the accompanying Consolidated Balance Sheets.

	Outstanding Balance	Current Maturities	Matures	Current Interest Rate
Note 1	$ 48,300	$ 20,000	2010	0.00%
Note 2	59,500	19,100	2010	6.42%
Note 3	132,300	39,400	2011	6.42%
Note 4	60,000	24,000	2008	0.00%
Note 5	512,800	372,900	2009	4.90%
Note 6	1,789,900	607,200	2012	6.60%
	$ 2,602,800	$ 1,082,600		

The book value of notes payable approximates the fair market value based upon current rates for similar obligations.

(5) Guarantees:

The Company has a standby letter-of-credit facility of $3,000,000. As of December 31, 2007, there were standby letters of credit totaling $1,013,600 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. A warranty provision is recorded when notification is received of a potential claim, based on an estimate of the cost to repair or replace. 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 for the years ended December 31, 2007 and 2006:

	2007	2006
Beginning balance	$ 975,652	$ 560,988
Costs incurred to satisfy warranty claims	(2,112,340)	(928,843)
Aggregate warranty reserves made	1,564,298	1,288,656
Aggregate changes to warranty reserves	747,952	54,851
Ending balance	$ 1,175,562	$ 975,652

(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 $787,800 and terms exceeding one year. The future minimum lease payments for each of the years subsequent to December 31, 2007 will be:

2008	$ 179,200
2009	157,600
2010	134,100
2011	127,600
2012	126,200
2013	63,100
	$ 787,800

(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 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. 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).

2007	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$26,665,919	$167,966,964	$54,418,666	$ 6,222,600	$ 668,538	$ (14,795,506)	$241,147,181
Depreciation & amortization expense	$ 390,964	$ 2,269,379	$ 475,926	$ 506,715	$ 613,327	$ –	$ 4,256,311
Income (loss) before income tax	$ 1,874,785	$ 5,071,096	$ 7,611,703	$ 280,477	$ (206,750)	$ –	$ 14,631,311
Assets	$12,803,392	$ 67,241,865	$ 5,468,614	$ 2,768,603	$13,849,376	$ –	$102,131,850
Additions to property, plant & equipment	$ 455,933	$ 6,302,095	$ 600,107	$ 142,676	$ 3,032,415	$ –	$ 10,533,226

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	Transportation	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

Revenues from external customers by product category for the three years ended December 31, 2007 were:

	2007	2006	2005
Milk-cooling and storage equipment	$ 24,120,978	$ 21,646,112	$ 24,849,312
Process vessels and tanks	107,879,069	86,199,223	60,928,234
Other industrial equipment	109,147,134	45,041,835	52,355,908
	$ 241,147,181	$152,887,170	$138,133,454

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, 2007 were:

	2007	2006	2005
United States	$ 194,391,851	$137,530,181	$105,902,082
North America (excluding the U.S.)	8,885,459	8,257,332	12,894,644
Asia and the Far East	31,292,509	3,121,639	4,364,850
Europe	2,945,353	2,424,143	11,984,453
Other areas	3,632,009	1,553,875	2,987,425
	$ 241,147,181	$152,887,170	$138,133,454

During 2007, export sales of $27,556,500 were to one country. During 2006 and 2005, export sales to any one country were not in excess of 10% of consolidated sales.

During 2007, sales to an individual customer exceeded 10% of consolidated sales. The sale amounted to $29,374,400 and related to the Industrial Equipment Segment. During 2006 and 2005, sales to any one customer 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.

(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, 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 amortized ratably over the vesting period.

Compensation expense recognized for the restricted shares was $236,742, $126,247, and $132,566 for the years ended December 31, 2007, 2006, and 2005, respectively. At December 31, 2007, 43,716 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, 2007 was $981,886. This amount will be recognized as expense over a weighted average period of 4.0 years. Changes in the Company's restricted stock for the year ended December 31, 2007 were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2006	33,453	$ 36.63
Granted during the period	14,013	$ 54.56
Vested during the period	(3,750)	$ 31.70
Forfeited during the period	–	$ –
Nonvested at December 31, 2007	43,716	$ 42.80

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. Compensation 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 replacement 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(R) to stock-based employee and nonemployee director compensation for 2005:

	2005
Pro forma net income	$ 6,582,120
Pro forma earnings per common share:	
Basic	$ 5.65
Diluted	$ 5.61

(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, 2007 and 2006, and the related consolidated statements of income, shareholders' investment and cash flows for the years ended December 31, 2007, 2006 and 2005. 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated 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, 2007 and 2006, and the results of their operations and their cash flows for the years ended December 31, 2007, 2006 and 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 – "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," effective January 1, 2007.

As discussed in Note 2, the Company adopted FASB Statement No. 158 – "Employers' Accounting for Defined Benefit Pension and Other Retirement Benefit Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)," effective December 31, 2006.

BKD, LLP

March 10, 2008

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2007 and 2006

Selected Financial Data – Five-Year Summary

	2007	2006	2005	2004	2003
Net sales	$ 241,147,181	$ 152,887,170	$ 138,133,454	$ 112,928,442	$ 116,766,018
Net income (loss)	$ 9,086,445	$ 7,021,750	$ 6,617,176	$ (8,604,883)	$ 2,018,553
Earnings (loss) per common share:					
Basic	$ 7.88	$ 6.10	$ 5.68	$ (7.36)	$ 1.73
Diluted	$ 7.74	$ 6.04	$ 5.64	$ (7.36)	$ 1.71
Common shares outstanding	1,198,562	1,185,123	1,162,249	1,192,410	1,193,771
Dividends declared per common share	$ 2.40	$ 2.40	$ 2.40	$ 2.40	$ 2.40
Total assets	$ 102,131,850	$ 92,815,971	$ 55,171,497	$ 57,082,627	$ 67,654,860
Long-term obligation, net of current maturities	$ 2,080,674	$ 833,967	$ 708,420	$ 728,876	$ 992,208
Shareholders' investment	$ 27,396,934	$ 20,569,083	$ 21,449,313	$ 17,000,373	$ 29,247,496
Working capital	$ 12,567,481	$ 10,678,008	$ 7,704,895	$ 5,826,016	$ 10,723,341
Book value per common share	$ 22.86	$ 17.36	$ 18.46	$ 14.26	$ 24.50
Average number of employees	1,305	948	816	843	1,007

Market and Dividend Information by Quarter

	2007 Quarter Ended				2006 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Market Price of Stock								
High	$50.00	$64.25	$75.70	$72.00	$35.75	$40.00	$39.25	$43.00
Low	$36.05	$47.50	$59.98	$43.00	$27.50	$34.00	$34.50	$35.75
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 NASDAQ, Inc. for 2007 and from Pink Sheets LLC for 2006.

Financial Highlights by Quarter (Unaudited)
For the Years 2007 and 2006

(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2007	2006	2007	2006	2007	2006	2007 (a)	2006 (b)(c)
Net sales	$ 49,539	$ 25,476	$ 53,740	$ 34,115	$ 58,424	$ 36,698	$ 79,444	$ 56,598
Gross profit	$ 8,520	$ 4,918	$ 9,166	$ 5,810	$ 6,736	$ 5,838	$ 15,866	$ 10,879
Net income	$ 1,884	$ 147	$ 1,786	$ 682	$ 227	$ 198	$ 5,189	$ 5,995
Earnings per common share:								
Basic	$ 1.64	$ 0.13	$ 1.55	$ 0.59	$ 0.20	$ 0.17	$ 4.49	$ 5.21
Diluted	$ 1.61	$ 0.13	$ 1.52	$ 0.59	$ 0.19	$ 0.17	$ 4.42	$ 5.12

(a) Fourth quarter 2007 results were favorably affected by an adjustment to the LIFO reserve, which increased net income by $2,163,000, or $1.87 per share ($1.84 diluted). The reduction in the inventory level during the fourth quarter due to the high level of sales contributed to the adjustment.

(b) 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 was directly related to the improved financial performance of the Company during 2006 and 2005, and its backlog of $116,913,000 as of December 31, 2006. The noncash credit increased net income by $3,157,000 for the fourth quarter of 2006.

(c) 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.

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

MUELLER®

TRANSFER AGENT:
COMPUTERSHARE, INC.
P. O. Box 43078
Providence, RI 02940-3078

Safe Harbor for Forward-Looking Statements

The President's message on pages 2-3 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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