2008 Annual Report

Financial Highlights

Operating Results for the Year	2008	2007
Net Sales	$ 217,882,000	$ 241,147,000
Income before Taxes	$ 6,460,000	$ 14,594,000
Provision for Income Taxes	2,350,000	5,508,000
Net Income	$ 4,110,000	$ 9,086,000
Earnings per Common Share:		
Basic	$ 3.53	$ 7.88
Diluted	$ 3.47	$ 7.74
Dividends Declared per Share	$ 2.40	$ 2.40
Year-End Position		
Total Assets	$ 152,132,000	$ 102,132,000
Working Capital	$ 5,394,000	$ 12,567,000
Current Ratio	1.08 : 1	1.22 : 1
Net Worth	$ 20,110,000	$ 27,397,000
Book Value per Share	$ 16.14	$ 22.86
Common Shares Outstanding	1,245,630	1,198,562
Backlog	$ 56,421,000	$ 69,270,000

Mueller®
Process
Solutions

Dear Shareholder,

In spite of the worst economic downturn in the modern era, consolidated revenues were $217,882,000 for 2008, the 2nd highest level in the history of the Company. The economic environment was challenging as the availability of work quickly diminished during the year and profit margins suffered. However, we achieved a profitable result for the year, as net income was $4,110,000, or $3.53 per share and $3.47 on a diluted basis.

We entered 2008 facing a much weaker economy and a significantly reduced backlog compared to 2007. The market for Industrial Equipment, our largest segment, shifted from the insufficient capacity position of 2007 to an over abundance of capacity in a few short months during 2008. As a result, order entry and margins declined, customers demanded extended payment terms, and there was an absence of large-project work. In addition, many cash-strapped customers delayed payments beyond agreed-upon terms, and some ultimately ended up in bankruptcy. Despite the difficult economic conditions, we were able to maintain our profitability, complete two major acquisitions in The Netherlands, and avoid any significant bad-debt write offs.

In April 2008, we acquired Paltrok Beheer B.V. (our long-time European licensee), whose operating company, SSP Lichtenvoorde, manufactures dairy farm equipment using our designs; and in October, we completed the acquisition of the MEKO group of companies. We also established Mueller B.V., which is the holding company for our acquired companies in The Netherlands. SSP Lichtenvoorde has its roots in a 50%-owned joint venture, Mueller Europa B.V., which was started in 1969 between Paul Mueller Company and the original owners of the MEKO group. In 1987, the operations of Mueller Europa B.V. were discontinued; and the new owners established SSP Lichtenvoorde and continued to build dairy farm equipment under a license agreement with Paul Mueller Company. The MEKO group, which has always been the largest customer of SSP Lichtenvoorde for dairy farm equipment, provides marketing, sales, and service capabilities primarily for the Benelux region and the other countries in Europe, and also for Africa and the Middle East. Mueller B.V. brings together marketing, sales, manufacturing, engineering, and service into one operating business. The operating companies of Mueller B.V. have historically been profitable, and the acquisition provides the opportunity to strengthen the Mueller brand in Europe and in adjacent areas. Although the acquisitions did contribute to our 2008 sales and profits, the amortization of an acquired intangible asset (the value of the backlog of the acquired companies) significantly impacted our consolidated results. Our focus moving forward will be to successfully integrate Mueller B.V. into our overall business, implement “best-practices” in our worldwide manufacturing efforts, and leverage the additional capacity and the marketing/sales capability to improve our overall global market position.

The Dairy Farm Equipment segment had an excellent year for 2008, with overall revenues reaching $57,784,000 and income before tax of $5,436,000. Mueller B.V. contributed $25,114,000 in sales and income before tax of $1,045,000 to the segment during the partial year of ownership in 2008. Mueller B.V. provides us a strong position in the dairy farm equipment market in the Benelux and the opportunity to expand into other countries in Europe and into the surrounding territories. Having two manufacturing and marketing organizations allows us to effectively use our capacity to service our customers throughout the world. We expect the synergy between our domestic and European operations to develop improvements in our equipment designs and to improve the manufacturing efficiency of dairy farm equipment, which will allow us to maintain a leadership role in milk-cooling technology on a worldwide basis.

After several years of strong growth in the Industrial Equipment segment, we experienced a significant drop in revenues in 2008. Overall, revenues were $142,528,000, which was a 15% reduction from 2007. Our Industrial Equipment segment is primarily an “engineered-to-order” ("ETO") offering dependent on large capital projects that involve new facilities or a major expansion to an existing plant. In the late stages of 2007 and the early part of 2008, our accounts receivable balances for this segment began to increase, while at the same time new order entry slowed. The first industry to have significant trouble was renewable fuels. The prevailing business model was to bring plants online as quickly as possible and to use the cash flow of operating plants, coupled with additional borrowing, to finance the construction of subsequent plants.

Over commitment occurred with technology providers, equipment manufacturers, construction companies, and ultimately the fuel producers themselves. This resulted in construction delays, extending dates for completion and start-up, and tying up financing for subsequent projects. When funding dried up, projects were postponed or canceled, and the industry experienced a sudden surplus in capacity. Many competitors had extensive resources tied up in renewable fuels projects and immediately lowered margins to secure work “at all costs”; and as a result, prices dropped industry wide.

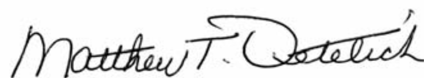
What made the situation even more difficult was the magnitude of the capacity that was immediately available in the market place. This available capacity had fabricators, who had focused on ethanol, now looking for whatever work was available and, as a result, increasing the competitive situation for all other products within the Industrial Equipment segment. From the beginning of the 4th quarter of 2008, our bread-and-butter large-project business dropped off substantially. Major projects were put on hold, smaller ones were awarded at significantly reduced margins, and, as a result, the entire industry is anticipating an extremely slow 2009.

Our heat transfer product line, which is in the Industrial Equipment segment, reached overall revenues in 2008 of $20,333,000. The Accu-Therm product line continues to achieve consistent growth and maintain profitability, especially in the international market. We are a niche player in the plate-and-frame heat exchanger market, focused on application flexibility and responsiveness to our customers’ specific needs. The economic environment will be challenging this year as large projects are being delayed. However, during 2009, we will continue to advance our position globally through regionally located partnerships in areas, such as India, China, and the Eastern European countries, and will leverage the capabilities of Mueller B.V.

The Temp-Plate product line has received a significant boost in marketing potential from our European acquisition as a result of the increased manufacturing capability and enhanced engineering design capability. The acquisition of Paltrok included a 49% ownership in a German-based heat transfer solutions engineering company, DEG Engineering GmbH. DEG focuses on heat transfer applications using Temp-Plate. Overall, the outlook for 2009 is best described as cautiously optimistic, with international sales and the value of the dollar being the keys to success.

The Field Fabrication segment was impacted by the same challenges as our Industrial Equipment segment; but even though revenues were down, we were able to remain profitable. Our field-fabrication approach relies on temporary construction labor, subcontractors, and specialty suppliers, allowing us to run this business with very low fixed costs. As a result, we are able to flex resources quickly to support the opportunities or challenges of the marketplace. As new project work slowed, we were able to secure renovations and repair projects that increased our overall margins.

We expect the economic challenges of 2008 to continue throughout 2009; and therefore, we have an execution plan focused on maintaining the most profitable position possible, while protecting the significant investments we have made in recent years. Manufacturing in the United States will face challenges with cost, quality, timing to market, and technology that it has never encountered. We will advance our position in the global market with Mueller B.V. and will explore additional opportunities in India, Asia, and Latin America. The challenges are many as we enter 2009; so we will focus on cost reduction, operating efficiency, cash flow, and strategic but aggressive marketing.



Matthew T. Detelich
President and CEO

March 2009

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 B.V., a Dutch holding company, was established during 2008 and is the parent company to Paltrok Beheer B.V. and the MEKO companies, which were acquired during 2008. Paltrok Beheer B.V. has a manufacturing facility located in Lichtenvoorde, The Netherlands, that occupies approximately 125,000 square feet; and the Meko companies provide sales, service and milk tank rental capabilities primarily for the Benelux and the other European union countries. The acquired companies are primarily engaged in activities in dairy farm equipment. However, they have capabilities to expand their operations into industrial equipment and to service international markets.

Consolidated Statements of Income
For the Years Ended December 31, 2008, 2007, and 2006

	2008	2007	2006
Net Sales	$ 217,881,755	$ 241,147,181	$ 152,887,170
Cost of Sales	176,826,262	200,858,816	125,441,789
Gross profit	$ 41,055,493	$ 40,288,365	$ 27,445,381
Selling, General, and Administrative Expenses	34,443,066	25,274,653	22,146,389
Operating income	$ 6,612,427	$ 15,013,712	$ 5,298,992
Other Income (Expense):			
Interest income	$ 577,797	$ 369,803	$ 304,455
Interest expense	(1,084,563)	(71,960)	(10,556)
Other, net	226,418	(680,244)	298,352
	$ (280,348)	$ (382,401)	$ 592,251
Income before provision for income taxes and equity in income (loss) of joint ventures	$ 6,332,079	$ 14,631,311	$ 5,891,243
Provision (Benefit) for Income Taxes	2,349,418	5,508,000	(1,229,000)
Income before Equity in Income (Loss) of Joint Ventures	$ 3,982,661	$ 9,123,311	$ 7,120,243
Equity in Income (Loss) of Joint Ventures	127,629	(36,866)	(98,493)
Net Income	$ 4,110,290	$ 9,086,445	$ 7,021,750
Earnings per Common Share:			
Basic	$ 3.53	$ 7.88	$ 6.10
Diluted	$ 3.47	$ 7.74	$ 6.04

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

Consolidated Balance Sheets
December 31, 2008 and 2007

Assets

	2008	2007
Current Assets:		
Cash and cash equivalents	$ 4,477,566	$ 1,415,640
Accounts receivable, less reserve for doubtful accounts of $601,592 for 2008 and $784,564 for 2007	35,625,677	44,319,124
Costs and estimated earnings in excess of billings	7,748	2,126,481
Inventories: Raw materials and components	$ 12,734,341	$ 10,886,672
Work-in-process	4,380,811	5,146,935
Finished goods	11,435,595	1,959,683
	$ 28,550,747	$ 17,993,290
Prepayments	5,190,568	3,930,739
Total Current Assets	$ 73,852,306	$ 69,785,274
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 7,919,288	$ 4,037,677
Buildings	19,298,843	16,251,507
Fabrication equipment	52,002,809	49,573,292
Transportation, office, and other equipment	39,124,703	15,939,557
Construction-in-progress	2,204,921	1,864,028
	$120,550,564	$ 87,666,061
Less: Accumulated depreciation	65,233,262	60,251,444
	$ 55,317,302	$ 27,414,617
Goodwill	8,887,463	–
Deferred Tax Assets	7,997,500	3,581,000
Other Assets	6,077,928	1,350,959
	$152,132,499	$102,131,850

Liabilities and Shareholders' Investment

	2008	2007
Current Liabilities:		
Short-term borrowings	$ 14,909,521	$ –
Current maturities of long-term debt	7,879,118	1,085,957
Accounts payable	9,686,665	12,312,165
Accrued expenses: Income taxes	834,857	1,896,767
Payroll and benefits	6,701,147	9,579,624
Vacations	4,494,799	3,805,474
Other	7,473,385	1,754,912
Advance billings	12,745,660	18,102,744
Billings in excess of costs and estimated earnings	3,733,128	8,680,150
Total Current Liabilities	$ 68,458,280	$ 57,217,793
Long-Term Pension Liabilities	24,388,767	14,434,424
Long-Term Debt	33,925,582	1,516,843
Other Long-Term Liabilities	5,250,114	1,565,856
Contingencies	–	–
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,456,560 shares for 2008 and 1,408,051 shares for 2007	$ 1,456,560	$ 1,408,051
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	7,279,487	5,438,362
Retained earnings	34,940,672	33,753,254
	$ 43,676,719	$ 40,599,667
Less: Treasury stock, 210,930 shares for 2008 and 209,489 shares for 2007, at cost	3,899,296	3,827,261
Accumulated other comprehensive loss	19,667,667	9,375,472
	$ 20,109,756	$ 27,396,934
	$152,132,499	$102,131,850

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

Consolidated Statements of Shareholders' Investment and Comprehensive Loss For the Years Ended December 31, 2008, 2007, and 2006

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Deferred Compen-sation	Accumulated Other Com-prehensive Loss	Total
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 158	–	–	–	–	–	(5,056,380)	(5,056,380)
Effect of adopting SFAS 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 forfeited	–	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)	–	–	–	–	–
Treasury stock acquired	–	–	–	(32,718)	–	–	(32,718)
Tax benefit of stock compensation	–	42,595	–	–	–	–	42,595
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
Add (Deduct):							
Net income	–	–	4,110,290	–	–	–	$ 4,110,290
Other comprehensive income, net of tax:							
Foreign currency translation adjustment	–	–	–	–	–	(347,800)	(347,800)
Change in pension liability	–	–	–	–	–	(9,522,275)	(9,522,275)
Swap value	–	–	–	–	–	(422,120)	(422,120)
Comprehensive (loss)	–	–	–	–	–	–	$ (6,181,905)
Dividends, $2.40 per common share	–	–	(2,922,872)	–	–	–	(2,922,872)
Restricted stock issued	16,509	(16,509)	–	–	–	–	–
Common stock issued	32,000	1,440,000	–	–	–	–	1,472,000
Treasury stock acquired	–	–	–	(72,035)	–	–	(72,035)
Tax benefit of stock compensation	–	49,759	–	–	–	–	49,759
Deferred compensation	–	367,875	–	–	–	–	367,875
Balance – 12-31-2008	$ 1,456,560	$ 7,279,487	$ 34,940,672	$ (3,899,296)	$ –	$(19,667,667)	$ 20,109,756

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2008, 2007, and 2006

	2008	2007	2006
Cash Flows from Operating Activities:			
Net income	$ 4,110,290	$ 9,086,445	$ 7,021,750
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in (income) loss of joint ventures	(127,629)	36,866	98,493
Bad debt expense	332,858	42,442	15,328
Depreciation and amortization	7,594,139	4,256,311	3,025,699
(Gain) on sales of equipment	(3,100)	(31,376)	(99,583)
Deferred tax expense	1,315,507	36,582	689,227
Valuation allowance – change	72,664	3,280	(3,156,893)
Changes in assets and liabilities, net of effect of acquisitions –			
Decrease (increase) in accounts and notes receivable	21,405,882	(13,073,251)	(8,982,922)
(Increase) decrease in costs in excess of estimated earnings and billings	(2,118,733)	1,229,424	(2,210,386)
Decrease (increase) in inventories	3,112,424	3,755,561	(15,699,706)
(Increase) decrease in prepayments	(990,124)	(640,884)	218,475
Decrease (increase) in other assets	374,705	819,187	(584,702)
(Decrease) increase in accounts payable	(8,039,247)	(495,906)	7,554,049
(Decrease) increase in accrued expenses	(3,953,498)	5,085,954	(2,419,520)
(Decrease) increase in advance billings	(6,185,417)	(3,916,034)	16,375,748
(Decrease) increase in billings in excess of costs and estimated earnings	(4,947,022)	113,475	6,355,576
(Decrease) increase in other long-term liabilities	(3,353,571)	(241,002)	2,834,538
Net Cash Provided by Operating Activities	$ 8,600,128	$ 6,067,074	$ 11,035,171
Cash Flows (Requirements) from Investing Activities:			
Cost of acquisitions, including transaction costs, net of cash acquired	$ (7,368,498)	$ –	$ –
Proceeds from sales of equipment	8,650	67,375	150,893
Additions to property, plant, and equipment	(3,762,890)	(10,533,226)	(5,958,463)
Net Cash (Required) by Investing Activities	$(11,122,738)	$(10,465,851)	$ (5,807,570)
Cash Flow Provisions (Requirements) from Financing Activities:			
Proceeds from short-term borrowings	$ 6,053,094	$ –	$ –
Repayment of short-term borrowings	(1,068,199)	–	–
Long-term debt proceeds	8,808,788	2,916,383	261,484
Repayment of long-term debt	(5,090,656)	(731,207)	(69,139)
Dividends paid	(2,922,872)	(2,867,555)	(2,817,193)
Treasury stock acquisitions	(72,035)	(32,718)	(4,322)
Net Cash Provided (Required) by Financing Activities	$ 5,708,120	$ (715,097)	$ (2,629,170)
Effect of Exchange Rate Changes	(123,584)	–	–
Net Increase (Decrease) in Cash and Cash Equivalents	$ 3,061,926	$ (5,113,874)	$ 2,598,431
Cash and Cash Equivalents at Beginning of Year	1,415,640	6,529,514	3,931,083
Cash and Cash Equivalents at End of Year	$ 4,477,566	$ 1,415,640	$ 6,529,514

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

Notes to Consolidated Financial Statements
December 31, 2008, 2007, and 2006

(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 B.V., a Dutch holding company and parent to the companies acquired during 2008 (see Note 2) ("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.

Joint Ventures – The Company has a 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, 2008 was $587,641). It is expected that the transaction will be completed in 2009.

As a part of the acquisitions made during 2008 (see Note 2), Mueller B.V. acquired a 49% interest in DEG Engineering GmbH, a German engineering firm that designs and sells heat transfer 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 is included on the Consolidated Income Statements.

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, 2008 and 2007 were as follows:

	2008	2007
Costs incurred on uncompleted contracts	$ 16,001,335	$ 61,638,206
Estimated earnings	3,338,030	11,522,147
	$ 19,339,365	$ 73,160,353
Less: Billings to date	23,064,745	79,714,022
	$ (3,725,380)	$ (6,553,669)

Amounts included in the accompanying Consolidated Balance Sheets as of December 31, 2008 and 2007 under the following captions were:

	2008	2007
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 7,748	$ 2,126,481
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,733,128)	(8,680,150)
	$ (3,725,380)	$ (6,553,669)

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 $126,000 as of December 31, 2008 and $958,000 as of December 31, 2007.

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 domestic 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") 151 – "Inventory Costs – an amendment of ARB 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 $14,696,600, $14,415,800, and $12,782,500 higher than those reported as of December 31, 2008, 2007, and 2006, respectively.

Inventories of Mueller B.V. were $13,138,446 as of December 31, 2008, and are recorded at the lower of cost on a first-in, first-out ("FIFO") basis or market.

Intercompany profits in inventory have been eliminated in the preparation of the consolidated financial statements for the year ended December 31, 2008.

Research and Development – Research and development costs are charged to expense as incurred and were $976,600 during 2008, $591,000 during 2007, and $709,700 during 2006.

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. Depreciation expense was $5,609,000, $4,020,000, and $2,871,000 for the years ended December 31, 2008, 2007, and 2006, respectively. The economic useful lives for the more significant items within each property classification are as follows:

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

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

	2008	2007	2006
Net income	$ 4,110,290	$ 9,086,445	$ 7,021,750
Shares for basic earnings per common share – Weighted-average shares outstanding	1,165,514	1,153,482	1,151,150
Dilutive effect of restricted stock	18,762	19,892	11,730
Shares for diluted earnings per common share – Adjusted weighted-average shares outstanding	1,184,276	1,173,374	1,162,880
Earnings (loss) per common share:			
Basic	$ 3.53	$ 7.88	$ 6.10
Diluted	$ 3.47	$ 7.74	$ 6.04

Stock-Based Compensation – The Company adopted SFAS 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 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. On October 26, 2006, all outstanding options were cancelled and concurrently replaced by a grant of restricted stock of equivalent value, and no additional options have been granted.

Comprehensive Income – The components of other comprehensive income (loss) for the years ended December 31, 2008, 2007, and 2006 were as follows:

	2008	2007	2006
Foreign currency translation adjustment	$ (347,800)	$ (3,234)	$ (12,209)
Tax	–	–	–
Foreign currency translation adjustment, net of tax	$ (347,800)	$ (3,234)	$ (12,209)
Change in pension liability	$ (15,483,374)	$ 201,039	$ –
Tax	5,961,099	164,537	–
Change in pension liability, net of tax	$ (9,522,275)	$ 365,576	$ –
Swap valuation	(422,120)	–	–
Reduction of intangible asset	–	–	(167,007)
Other comprehensive income (loss)	$ (10,292,195)	$ 362,342	$ (179,216)
Effect of adopting SFAS 158	$ –	$ –	$ (5,056,380)

The tax amount for the change in pension liability for 2007 includes 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, 2008 were as follows:

	2008	2007	2006
Interest payments	$ 903,600	$ 77,300	$ 26,700
Income tax payments	$ 1,652,400	$ 3,592,700	$ 1,183,500
Non-cash activities related to acquisitions:			
Seller financing	$ 12,982,300	–	–
Stock issued	$ 1,472,000	–	–
Change in equity related to swap position	$ (422,100)	–	–

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, 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
Restricted stock issued	16,509	–
Common stock issued	32,000	–
Treasury stock acquisition	–	1,441
Balance, December 31, 2008	1,456,560	210,930

Goodwill, Intangibles, and Other Assets – The Company has adopted SFAS 141 – "Business Combinations" and SFAS 142 – "Goodwill and Other Intangible Assets." SFAS 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. In addition, intangible assets acquired in a business combination should be recorded separately from goodwill if they arise from contractual or legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability. SFAS 142 requires goodwill and other intangible assets that have indefinite useful lives not to be amortized; however, these assets must be tested at least annually for impairment. Intangible assets, other than goodwill, that have a finite useful life are amortized over their estimated useful lives.

On April 18, 2008, the Company purchased all of the outstanding shares of Paltrok Beheer B.V. (see Note 2). The assets acquired included intangible assets of approximately $4,326,000, including approximately $3,099,000 of goodwill. The intangible asset, other than goodwill, was measured at fair value at the date of purchase and is being amortized on a straight-line basis over its estimated useful life, which is less than one year.

On October 1, 2008, the Company also purchased all the outstanding shares of the MEKO companies (see Note 2). The assets acquired included approximately $11,255,000 of intangible assets, including approximately $5,926,000 of goodwill. The intangible assets were measured at their fair values at the date of purchase and, excluding goodwill, are being amortized on a straight-line basis over their estimated remaining useful lives, which range from three to ten years.

The Company tests goodwill for impairment at the end of each year in accordance with SFAS 142. As of December 31, 2008, the Company determined that no impairment existed.

Fair Value of Financial Instruments – SFAS 107 – "Disclosures About Fair Value of Financial Instruments" requires the Company to disclose the fair value of its financial instruments, which represents the amount at which the instrument could be exchanged in a current transaction between willing parties other than a forced sale or liquidation. The amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, bank borrowings, and accounts payable are short-term in nature and their carrying value approximates fair value. The Company estimates the fair value of long-term debt based upon borrowing rates available at the reporting date for indebtedness with similar terms and average maturities.

Recent Accounting Pronouncements – In June 2008, the Financial Accounting Standards Board ("FASB") issued FSP EITF 03-6-1 – "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities, and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. FSP EITF 03-6-1 will not have a material effect on earnings per share.

In May 2008, the FASB issued SFAS 162 – "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411 – "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The adoption of SFAS 162 is not expected to have a material effect on the consolidated financial statements.

In March 2008, the FASB issued SFAS 161 – "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"), which requires enhanced disclosures about an entity's derivative and hedging activities. The effective date of SFAS 161 is for fiscal years beginning January 1, 2009. The adoption of SFAS 161 is not expected to have a material effect on the consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007) – "Business Combinations" ("SFAS 141R"). SFAS 141R broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS 141R expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. The Company intends to adopt SFAS 141R effective January 1, 2009 and will apply its provisions prospectively.

In February 2007, the FASB issued SFAS 159 – "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities using different measurement techniques. SFAS 159 requires additional disclosures related to fair value measurements included in the entity's financial statements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS 159 was adopted on January 1, 2008, and it had no material effect on the consolidated financial statements.

In September 2006, the FASB issued SFAS 157 – "Fair Value Measurement" ("SFAS 157"). SFAS 157 establishes a common definition for fair value to be applied to generally accepted accounting principles guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 was adopted on January 1, 2008 with no material effect on the consolidated financial statements.

In February 2008, the FASB issued Staff Position 157-2 – "Effective Date of FASB 157" ("FSP 157-2"), which deferred the provisions of SFAS 157 to annual periods beginning after November 15, 2008 for

nonfinancial assets and liabilities. Nonfinancial assets include fair value measurements associated with business acquisitions and impairment testing of tangible assets. The adoption of FSP 157-2 is not expected to have a material effect on the consolidated financial statements.

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

The variation in the euro-dollar exchange rate between the dates of the acquisitions and year-end has affected the comparability of certain numbers contained within this Annual Report.

(2) Acquisitions:

On April 10, 2008, the Company entered into a definitive Share Purchase Agreement ("SPA") with Rollbas B.V. ("Rollbas") to purchase all of the outstanding shares of Paltrok Beheer B.V. ("Paltrok"), a wholly owned Dutch subsidiary of Rollbas. The closing date was April 18, 2008, and the results of Paltrok's operations have been included in the consolidated financial statements of the Company since that date.

The aggregate purchase price was $14,121,000 (including transaction costs of $901,000). The purchase price included $7,750,000 in cash and a loan of $6,371,000 from Rollbas. Rollbas is to be repaid annually from, as defined, cash flows generated by Paltrok until the loan is paid in full.

After the loan is paid in full, the SPA provides for contingent consideration payable to Rollbas on an annual basis from, as defined, cash flows of Paltrok. If, within the five-year period beginning December 31, 2007, contingent consideration is at least $7,486,000 or a higher amount calculated from the payout formula, then no additional amount shall be payable. In the event that, within the five-year period, contingent consideration is less than $7,486,000, then the period to earn contingent consideration will be extended for two additional years. If, within the two-year period, the contingent consideration reaches at least $7,486,000 or the two-year period ends, then no additional amount shall be payable. Any contingent consideration earned will be recognized as additional acquisition cost when paid and will be recorded as goodwill.

On September 30, 2008, the Company executed a definitive Share Purchase Agreement ("Agreement") with KaJeMa Beheer B.V. ("KaJeMa") to purchase all of the outstanding shares of the MEKO companies ("MEKO"), which are Dutch operating companies and an Asian trading company. The closing date was October 1, 2008, and the results of the MEKO companies' operations have been included in the consolidated financial statements of the Company since that date.

The aggregate purchase price was $14,020,000 (including transaction costs of $1,112,000). The purchase price included cash in the amount of $5,400,000, a loan of $7,148,000 from KaJeMa, and 32,000 shares of the Company's common stock valued at $1,472,000. The value of the shares of the Company's common stock issued was determined based on the closing price as of October 1, 2008.

Paltrok and the MEKO companies are all wholly owned subsidiaries of Mueller B.V., a wholly owned Dutch holding company established by the Company in 2008. The owner of KaJeMa ("Seller") is an employee and has the responsibility to manage the daily operations of Mueller B.V. and its subsidiaries.

The Agreement also includes an employment contract with the Seller and a noncompetition agreement. The employment contract has an indefinite time period and provides for base compensation, plus a bonus based on the profitability of the total consolidated results of the Company. Under the Agreement, the Seller is eligible for additional compensation of $5,640,000 if an eight percent ("8%") compound growth rate in net income of Mueller B.V. is achieved over ten years beginning with the year 2009 and starting

from a base of $7,281,000 of net income. For every one percentage point over an 8% growth rate, $705,000 will be added to the $5,640,000; and for each one percentage point below an 8% growth rate, $705,000 will be deducted from the $5,640,000. There will be no additional compensation if the compound annual growth rate over the ten-year period is equal to or less than 4%.

The total additional compensation earned is due and payable in one amount at the end of the twelve-year period ending December 31, 2020. The Company has the option to defer the payment for an additional five-year period, and interest will be at a rate of Euribor plus 2%. In the event that the Seller voluntarily terminates his employment or is terminated for cause during the ten-year period, no additional compensation will be paid. In the event that the Seller's employment is terminated for reasons other than cause, any payment will be by a predetermined calculation.

The acquisitions discussed above include a manufacturing company and sales, service, and rental companies primarily serving the dairy farm equipment market and were made to increase the Company's presence in Europe and to facilitate growth in international markets.

The above acquisition transactions have been accounted for in accordance with the provisions of SFAS 141 and SFAS 142. The purchase prices of Paltrok and MEKO exceeded the estimated fair values of the assets acquired and liabilities assumed as of the purchase dates. The excess in both cases was recorded as goodwill in the Company's records. The transactions as of the acquisition dates were recorded on the Company's records as follows:

	Paltrok	MEKO
Current assets	$ 11,015,978	$ 17,980,082
Property and equipment	11,056,826	20,260,944
Intangible asset backlog	1,227,114	751,631
Other intangible assets	–	4,577,974
Goodwill	3,099,141	5,925,638
Other assets	434,336	465,239
Total assets acquired	$ 26,833,395	$ 49,961,508
Current liabilities	$ 6,485,010	$ 20,984,601
Long-term debt	4,109,859	13,236,524
Deferred taxes	1,579,389	1,276,372
Other liabilities	538,366	443,968
Total liabilities assumed	$ 12,712,624	$ 35,941,465
Purchase Price	$ 14,120,771	$ 14,020,043

The goodwill of $8,887,463 as of December 31, 2008, on the Consolidated Balance Sheets varies from the goodwill amounts shown above due to variations in the euro-dollar exchange rate from the acquisition dates until year-end.

The following unaudited proforma summary presents consolidated financial information as if Paltrok and the MEKO companies had been acquired at the beginning of each period presented. The proforma consolidated financial information does not necessarily reflect the actual results that would have occurred had the acquisitions taken place on January 1, 2007, or of future results of operations of the combined companies under ownership and operation of the Company.

	Unaudited	
	2008	2007
Net sales	$ 275,473,000	$ 307,871,000
Net income	$ 10,190,000	$ 12,764,000
Earnings per common share – Basic	$ 8.74	$ 11.07
Diluted	$ 8.60	$ 10.88

(3) Goodwill and Intangible Assets:

Intangible assets as of December 31, 2008, consisted of the following:

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets and Goodwill
Amortized intangible assets				
Brand names	6 years	$ 1,573,200	$ 75,200	$ 1,498,000
Customer relationships ...	9 years	2,929,400	72,400	2,857,000
Backlog	–	1,929,100	1,497,100	432,000
		$ 6,431,700	$ 1,644,700	$ 4,787,000
Nonamortizing intangible assets				
Goodwill	–	8,887,500	–	8,887,500
Total	–	$ 15,319,200	$ 1,644,700	$ 13,674,500

Aggregate amortization of intangible assets was $1,644,700 for the year ended December 31, 2008. Estimated aggregate amortization for the next five years and thereafter is as follows:

2009................	$ 1,062,900
2010................	630,900
2011................	607,300
2012................	537,500
2013................	537,500
Thereafter	1,410,900
	$ 4,787,000

(4) Retirement Plans:

The Company has a Profit Sharing and Retirement Savings Plan [401(k) plan] in which substantially all domestic employees are eligible to participate. The plan provides for a match of employees' contributions up to a specified limit. The 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 $625,761 for 2008, $1,684,400 for 2007, and $779,200 for 2006.

The Company has pension plans covering domestic employees who are represented by a bargaining unit and employees who are not represented by a bargaining unit. Benefits under the 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.

Mueller B.V. has pension plans covering employees who are represented by a union and employees who are not represented by a union. The plans are defined contribution plans, and contributions since the acquisitions included in the accompanying Consolidated Statements of Income were $612,400 during 2008.

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158 – "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of

FASB Statements 87, 88, 106 and 132(R)." SFAS 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 87, all of which were previously netted against the plan's funded status in the Company's Consolidated Balance Sheets pursuant to the provisions of SFAS 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 158.

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

Total domestic pension expense under the plans was $2,161,000 for 2008, $1,966,000 for 2007, and $2,777,000 for 2006. Management's policy is to fund pension contributions that are currently deductible for tax purposes. Contributions of $4,571,000 will be made during 2009. The Company uses a January 1 measurement date for its plans.

The following table sets forth the required disclosures for the domestic pension plans as of December 31:

	2008	2007
Change in Projected Benefit Obligation –		
Benefit obligation as of beginning of year	$ 72,156,000	$ 69,413,000
Service cost	1,963,000	1,717,200
Interest cost	4,550,000	4,051,700
Plan amendments	999,000	–
Actuarial (gain) loss	(4,140,000)	(649,900)
Benefits paid and expenses	(2,552,000)	(2,375,800)
Benefit obligation as of end of year	$ 72,976,000	$ 72,156,200
Change in Plan Assets –		
Fair value of plan assets as of beginning of year	$ 57,714,000	$ 53,764,900
Actual return on plan assets	(14,273,000)	3,352,900
Employer contributions	7,699,000	2,971,300
Benefits paid and expenses	(2,552,000)	(2,375,800)
Fair value of plan assets as of end of year	$ 48,588,000	$ 57,713,300
Funded Status as of End of Year	$ (24,388,000)	$ (14,442,900)

Components of pension expense for the three years were:

	2008	2007	2006
Service cost	$ 1,963,000	$ 1,717,200	$ 1,620,900
Interest cost	4,550,000	4,051,700	3,550,900
Expected return on plan assets	(5,033,000)	(4,618,900)	(3,592,300)
Amortization of prior service cost	83,000	142,200	199,000
Recognized net actuarial (gain) loss	598,000	673,800	998,500
Net periodic pension expense	$ 2,161,000	$ 1,966,000	$ 2,777,000

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

	2008	2007
Projected benefit obligations	$72,976,000	$72,156,200
Accumulated benefit obligations	$67,575,000	$64,927,900
Fair value of plan assets	$48,588,000	$57,713,300

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

	2008	2007
Discount rate	6.80%	6.42%
Rate of compensation increase	2.00%	3.00%

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

	2008	2007	2006
Discount rate	6.42%	5.93%	5.80%
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 5.93% for 2007 to 6.42% for 2008. The effect of the rate increase was to decrease pension expense by $533,269 for 2008. 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 2008 and 2007.

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

	2008	2007
Asset Category:		
Fixed income	53%	26%
Equities	42%	66%
Other	5%	8%
	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:

2009	$ 3,039,000
2010	3,129,000
2011	3,372,000
2012	3,791,000
2013	3,929,000
2014 through 2018	24,835,000
	$ 42,095,000

The incremental effects of adopting the provision of SFAS 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 158."

	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 158	$ 248,200	$ 8,016,100	$ 2,623,500	$ (4,681,400)
Effect of adopting SFAS 158	(248,200)	7,632,000	2,823,800	(5,056,400)
As reported as of December 31, 2006	$ –	$ 15,648,100	$ 5,447,300	$ (9,737,800)

Included in accumulated other comprehensive loss as of December 31, 2008 are the following amounts that have not yet been recognized in net periodic pension expense: unrecognized prior service costs of $1,033,000 ($635,300, net of tax) and unrecognized actuarial losses of $29,566,000 ($18,183,100, net of tax). Included in accumulated other comprehensive loss as of December 31, 2007 are the following amounts that had 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, 2009, are $106,000 and $1,737,000, respectively.

(5) Income Taxes:

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

	2008	2007	2006
Current tax expense	$ 961,300	$ 5,468,100	$ 1,238,700
Deferred, net	1,315,500	36,600	689,200
Valuation allowance – change	72,600	3,300	(3,156,900)
	$ 2,349,400	$ 5,508,000	$ (1,229,000)

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 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. The noncash credit was 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, 2008 and 2007 is shown below:

	2008	2007
Deferred Tax Assets:		
Workers compensation	$ 316,600	$ 418,500
Vacation	1,353,800	1,317,100
Warranty	237,900	95,500
Doubtful accounts	126,600	302,100
Pensions	8,776,900	4,650,600
Healthcare benefits	478,900	379,500
Inventory	764,800	823,200
Other	653,400	393,300
	$12,708,900	$ 8,379,800
Deferred Tax Liabilities:		
Amortization of intangibles	(1,221,100)	–
Depreciation	(3,269,600)	(1,720,800)
Net	$ 8,218,200	$ 6,659,000
Valuation allowance	(131,200)	(58,600)
Net Deferred Tax Assets	$ 8,087,000	$ 6,600,400

As of December 31, 2008, net current deferred tax assets were $2,833,600; net noncurrent deferred tax assets were $7,997,500; net current deferred tax liabilities were $110,100; and net noncurrent deferred tax liabilities were $2,502,800, all of which were offset by a valuation allowance of $131,200. 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. On the accompanying Consolidated Balance Sheets, net current deferred tax assets are included in prepayments, net current deferred tax liabilities are included in accrued expenses – other, and net noncurrent deferred tax liabilities are included in other long-term liabilities.

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, 2008 follows:

	2008	2007	2006
Statutory federal income tax expense	$ 2,149,700	$ 4,974,600	$ 2,003,000
Increase (decrease) in taxes resulting from:			
Tax credits	(267,900)	(227,900)	(290,100)
State tax, net of federal benefit	102,900	670,400	176,700
Unrecognized tax positions	381,700	116,600	–
International taxes	(145,800)	–	–
Other, net	56,200	(29,000)	38,300
Valuation allowance	72,600	3,300	(3,156,900)
	$ 2,349,400	$ 5,508,000	$ (1,229,000)

The FASB issued Interpretation 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. A reconciliation of the beginning and ending amounts of unrecognized tax benefits follows. The balance as of December 31, 2007 and 2008 is included in other long-term liabilities on the accompanying Consolidated Balance Sheets:

Balance as of 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 as of December 31, 2007	$ 940,800
Additions based on tax positions related to the current year	96,300
Additions for tax positions of prior years	285,400
Reductions for tax positions of prior years	–
Settlements or lapse of applicable statutes	–
Balance as of December 31, 2008	$ 1,322,500

The Company's U.S. federal income tax returns for tax years 2005 and forward remain subject to examination by the Internal Revenue Service. The Company's U.S. federal tax return for 2006 is currently under examination. State statutes vary, but state income tax returns are generally subject to examination from 2002 forward. The unrecognized benefits of $1,322,500 as of December 31, 2008 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 $93,900 for the year ended December 31, 2008 and was not significant for the year ended December 31, 2007.

(6) Borrowings:

The Company has a domestic bank borrowing facility of $17,000,000. The facility expires on May 31, 2009, and management intends to renew the facility. Borrowings under the facility incur interest at the 30-day LIBOR Daily Floating Rate plus 1.75%. As of December 31, 2008, the balance outstanding was $4,668,000; and as of December 31, 2007, there were no outstanding borrowings under the facility. The Company was not in compliance with a debt covenant on December 31, 2008; but it obtained a waiver through the maturity date of that facility agreement. The Company was in compliance with all borrowing facility covenants as of December 31, 2007.

Mueller B.V.'s operating companies have bank borrowing facilities which total $11,300,000. Borrowings under the facilities are at variable rates of one-month Euribor plus 1.25% to 2.5%. The borrowings are secured by a pledge of receivables and inventory and have a limit on capital expenditures and minimum tangible net worth requirements, and the companies were in compliance with the covenants as of December 31, 2008. Total borrowing under the facilities was $10,241,521 as of December 31, 2008.

As of December 31, 2008, the Company had notes payable with an outstanding balance of $41,804,700. Listed below is a summary of amounts outstanding for notes payable. The current portion is included in current maturities of long-term debt, and the long-term portion is included in other long-term liabilities on the accompanying Consolidated Balance Sheets. Loans pertaining to Mueller B.V. and its subsidiaries

total $34,778,000 as of December 31, 2008; and there is no recourse to Paul Mueller Company from these loans.

	Outstanding Balance	Current Maturities
Mueller B.V. – Note Payable – Acquisition of Paltrok and secured by stock of Paltrok B.V. Note matures in 2012 with variable rate at year-end of 5.74%	$ 3,496,200	$ 874,000
Note Payable – Seller financing of Paltrok acquisition. Note matures in 2013 with an interest rate of 0%	5,639,000	1,865,000
Note Payable – Seller financing of MEKO companies acquisition secured by Mueller B.V. stock with a fixed rate of 5%. Note matures in 2019	7,048,700	352,400
MEKO – Note Payable secured by tanks leased to dairy farmers. Note matures in 2013, and the variable rate at year-end was 6.3%	14,664,900	2,925,800
Paltrok – Notes Payable secured by equipment and certain assets. Notes mature between 2009 and 2017 and contain fixed and variable rates ranging from 4.85% to 6.3%	1,109,700	250,700
Paltrok – Mortgage loan secured by land and buildings. Note matures in 2030 and the variable rate at year-end was 5.03%	2,819,500	–
Notes Payable related to Mueller B.V and subsidiaries	$34,778,000	$ 6,267,900
Bank – Note Payable, unsecured. Note matures in 2013 with a fixed rate of 4.5%	$ 4,500,000	$ 824,400
Notes Payable with certain notes secured by plant or transportation equipment. Notes mature between 2009 and 2012 and contain fixed and variable rates ranging from 2.76% to 6%	2,526,700	786,800
Domestic Notes Payable	$ 7,026,700	$ 1,611,200
Total Notes Payable	$41,804,700	$ 7,879,100

Provisions of the Mueller B.V. note payable ($3,496,200) require bank approval to pay dividends. The Meko note payable ($14,644,900) has a tangible net worth requirement and a limitation on the annual repayment amount of the Seller's loan in the amount of $7,048,700. The Paltrok notes payable ($3,929,200) have a tangible net worth requirement. The Bank note payable ($4,500,000) has a minimum tangible net worth requirement and a minimum debt service requirement. The companies were in compliance with the covenants as of December 31, 2008.

The principal payments of the notes payable as of December 31, 2008 and for future years are listed below:

2009	$ 7,879,100
2010	6,998,400
2011	7,180,100
2012	7,305,700
2013	5,724,700
Thereafter	6,716,700
	$ 41,804,700

At December 31, 2007, the Company had notes payable with an outstanding balance of $2,602,800 and with current maturities of $1,082,600. Certain notes are secured by plant or transportation equipment.

At December 31, 2008, the fair market value of the Seller-financed note at no interest is $589,400 less than the book value based on current rates for similar obligations. At December 31, 2007, the book values of the notes payable approximated the fair market value based on current rates for similar obligations.

(7) Guarantees:

The Company has a standby letter-of-credit facility of $3,000,000. As of December 31, 2008, there were standby letters of credit totaling $1,344,440 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, in addition to a general reserve provision based on a multi-year lag analysis. Warranty claims are reviewed monthly and reserves are adjusted to properly reflect the remaining estimated cost to complete the repair or to provide a replacement. The following is a reconciliation of changes in the warranty reserve for the years ended December 31, 2008 and 2007:

	2008	2007
Beginning balance	$ 1,175,562	$ 975,652
Costs incurred to satisfy warranty claims	(1,905,695)	(2,112,340)
Aggregate warranty reserves made	1,395,064	1,564,298
Aggregate changes to warranty reserves	1,196,085	747,952
Ending balance	$ 1,861,016	$ 1,175,562

(8) 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 $3,444,200 and terms exceeding one year. The future minimum lease payments for each of the years subsequent to December 31, 2008 will be:

2009	$ 842,900
2010	835,300
2011	783,500
2012	783,500
2013	185,900
2014	13,100
	$ 3,444,200

(9) Segment Data:

The Company has four reportable segments: Dairy Farm Equipment, Industrial Equipment, Field Fabrication, and Transportation. Dairy Farm Equipment segment sales are made by the Company and by Mueller B.V. to independent dealers for resale. Mueller B.V. also sells directly to farmers and can provide milk coolers for rent to farmers. Products include milk-cooling and storage equipment and accessories, refrigeration units, and heat recovery equipment for use on dairy farms. The Industrial Equipment segment includes sales of the following products directly to industrial customers: food, beverage, chemical, and industrial processing equipment; industrial heat transfer equipment; biopharmaceutical equipment; pure water equipment; thermal energy storage equipment; and commercial refrigeration equipment. The Field Fabrication segment includes sales of very large, field-fabricated tanks and vessels that cannot be built and shipped from the plant. Typical projects are large stainless steel storage tanks for sanitary and industrial process applications. The Transportation segment includes the delivery of products to customers and backhauls of materials and components. The segment also includes the transportation of components for the Field Fabrication segment and contract carriage for third parties.

Management evaluates performance and allocates resources based on income or loss before income taxes. 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, and Lichtenvoorde, The Netherlands, manufacturing facilities 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).

2008	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transportation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$57,783,923	$142,528,152	$14,446,439	$ 6,403,871	$ –	$ (3,280,630)	$217,881,755
Depreciation & amortization expense	$ 2,832,138	$ 3,029,050	$ 444,122	$ 433,649	$ 855,180	$ –	$ 7,594,139
Income (loss) before income tax	$ 5,435,860	$ (3,530,031)	$ 3,035,690	$ 402,916	$ 987,644	$ –	$ 6,332,079
Assets	$68,181,795	$ 56,911,495	$ 2,721,074	$ 2,634,196	$21,683,939	$ –	$152,132,499
Additions to property, plant & equipment	$ 789,648	$ 1,519,335	$ 68,393	$ 50,164	$ 1,335,350	$ –	$ 3,762,890

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

Revenues from external customers by product category for the three years ended December 31, 2008 were:

	2008	2007	2006
Milk-cooling and storage equipment	$ 52,924,573	$ 24,120,978	$ 21,646,112
Process vessels and tanks	72,727,748	107,879,069	86,199,223
Other industrial equipment	92,229,434	109,147,134	45,041,835
	$217,881,755	$ 241,147,181	$152,887,170

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, 2008 were:

	2008	2007	2006
United States	$139,915,595	$ 194,391,851	$137,530,181
North America (excluding the U.S.)	14,515,037	8,910,584	8,257,492
Asia and the Far East	23,883,632	31,899,523	3,282,446
The Netherlands	23,231,699	1,146,698	1,382,017
Other EU countries	12,449,780	1,648,259	1,041,639
Europe (non-EU countries)	252,948	150,396	–
Other areas	3,633,064	2,999,870	1,393,395
	$217,881,755	$ 241,147,181	$152,887,170

During 2008 and 2006, export sales to any one country were not in excess of 10% of consolidated sales. During 2007, export sales of $27,556,500 were to one country.

During 2008 and 2006, sales to any one customer were not in excess of 10% of consolidated sales. During 2007, sales to an individual customer exceeded 10% of consolidated sales. The sale amount was $29,374,400 and related to the Industrial Equipment segment.

Long-lived assets owned by the Company and its subsidiaries as of December 31, 2008 of $28,373,300 and $40,187,800 were located in the United States and The Netherlands, respectively. As of December 31, 2007 and 2006, all long-lived assets were located in the United States.

(10) Long-Term Incentive Plans:

The Company has two stock-based compensation plans: the Amended and Restated 1999 Long-Term Incentive Plan (“Employee Plan”) and the Non-Employee Director Stock Option and Restricted Stock Plan (“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 was available for issue under the Employee Plan. The Employee Plan expired in January 2009, and a new Plan must be approved by the shareholders.

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 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 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 $367,875, $236,742, and $126,247 for the years ended December 31, 2008, 2007, and 2006, respectively. As of December 31, 2008, 54,525 shares of restricted stock were outstanding under the Plans. The total remaining unrecognized stock based compensation cost related to unvested restricted stock as of December 31, 2008 was $1,439,461. This amount will be recognized as expense over a weighted average period of four years.

Changes in the Company's restricted stock for the year ended December 31, 2008 were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2007	43,716	$ 42.80
Granted during the period	16,509	$ 50.00
Vested during the period	(5,700)	$ 35.00
Forfeited during the period	–	$ –
Nonvested as of December 31, 2008	54,525	$ 45.80

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 123(R).

(11) Interest Rate Swap:

On January 1, 2008, the Company adopted SFAS 157. SFAS 157 (a) establishes a common definition for fair value to be applied to generally accepted accounting principles guidance requiring use of fair value, (b) establishes a framework for measuring fair value, and (c) expands disclosure about such fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy based on the source of the information.

Fair Value Hierarchy Tables – SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair

value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents fair value measurements as of December 31, 2008:

	Fair Value Measurements			Assets at
	Level 1	Level 2	Level 3	Fair Value
Derivative instruments..........	$ –	$ 422,100	$ –	$ 422,100
Total.........................	$ –	$ 422,100	$ –	$ 422,100

Derivative Instruments – The Company does not engage in the trading of derivative financial instruments except where the Company's objective is to manage the variability of forecasted interest payments attributable to changes in interest rates. In general, the Company enters into derivative transactions in limited situations based on management's assessment of current market conditions and perceived risks.

On May 8, 2008, the Company entered into an interest rate swap agreement. The swap agreement has been designated as a cash flow hedge under SFAS 133 – "Accounting for Derivative Instruments and Hedging Activities" and changes the floating rate interest obligation associated with a $4,792,600 term loan into a fixed rate. The swap agreement has a maturity date of December 1, 2012. Under the swap, the Company pays a fixed interest rate of 4.64% and receives interest at the one-month Euribor rate. Also, interest rate swap agreements were entered into on March 1, 2007 for loans of $3,073,650 and $727,100, respectively. Under the swap agreements, the Company pays fixed interest rates of 4.35% and 4.48%, respectively, and receives interest at the one-month Euribor rate. The swap agreements have a maturity date of March 1, 2017. The swaps are considered highly effective; and as a result, there will be de minimus income statement variability associated with interest payments until settlement, at which time any gains or losses would be recorded through interest expense. As of December 31, 2008, the estimated fair value of the interest rate swaps was a net liability of $422,120 and was included in other liabilities on the Consolidated Balance Sheets.

(12) 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 ("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.

Report of Independent Certified Public Accountants

Board of Directors
Paul Mueller Company and Subsidiaries
Springfield, Missouri

We have audited the accompanying consolidated balance sheet of Paul Mueller Company (a Missouri corporation) and subsidiaries as of December 31, 2008, and the related consolidated statements of income, shareholders' investment and comprehensive loss, and cash flows for the year 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 and subsidiaries as of December 31, 2007 and for the years ended December 31, 2007 and 2006 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 10, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 2008 financial statements referred to above present fairly, in all material respects, the financial position of Paul Mueller Company and subsidiaries as of December 31, 2008 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 is discussed in Note 5, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB No. 109, effective January 1, 2007.

As is discussed in Note 4, the Company adopted FASB Statement of Financial Accounting Standards 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.

Grant Thornton LLP

Kansas City, Missouri
March 27, 2009

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2008 and 2007

Selected Financial Data – Five-Year Summary

	2008	2007	2006	2005	2004
Net sales	$ 217,881,755	$ 241,147,181	$ 152,887,170	$ 138,133,454	$ 112,928,442
Net income (loss)	$ 4,110,290	$ 9,086,445	$ 7,021,750	$ 6,617,176	$ (8,604,883)
Earnings (loss) per common share:					
Basic	$ 3.53	$ 7.88	$ 6.10	$ 5.68	$ (7.36)
Diluted	$ 3.47	$ 7.74	$ 6.04	$ 5.64	$ (7.36)
Common shares outstanding	1,245,630	1,198,562	1,185,123	1,162,249	1,192,410
Dividends declared per common share	$ 2.40	$ 2.40	$ 2.40	$ 2.40	$ 2.40
Total assets	$ 152,132,499	$ 102,131,850	$ 92,815,971	$ 55,171,497	$ 57,082,627
Long-term obligation, net of current maturities	$ 34,087,899	$ 2,080,674	$ 833,967	$ 708,420	$ 728,876
Shareholders' investment	$ 20,109,756	$ 27,396,934	$ 20,569,083	$ 21,449,313	$ 17,000,373
Working capital	$ 5,394,000	$ 12,567,481	$ 10,678,008	$ 7,704,895	$ 5,826,016
Book value per common share	$ 16.14	$ 22.86	$ 17.36	$ 18.46	$ 14.26
Average number of employees	1,398	1,305	948	816	843

Market and Dividend Information by Quarter

	2008 Quarter Ended				2007 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Market Price of Stock								
High	$64.50	$63.00	$51.50	$46.25	$50.00	$64.25	$75.70	$72.00
Low	$44.00	$48.00	$45.00	$22.00	$36.05	$47.50	$59.98	$43.00
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 NASDAQ for 2008 and 2007.

Financial Highlights by Quarter (Unaudited)
For the Years 2008 and 2007

(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2008	2007	2008	2007	2008	2007	2008 (a)	2007 (b)
Net sales	$ 51,855	$ 49,539	$ 50,176	$ 53,740	$ 50,564	$ 58,424	$ 65,287	$ 79,444
Gross profit	$ 8,338	$ 8,520	$ 8,958	$ 9,166	$ 7,424	$ 6,736	$ 16,336	$ 15,866
Net income	$ 1,136	$ 1,884	$ 920	$ 1,786	$ 656	$ 227	$ 1,398	$ 5,189
Earnings per common share:								
Basic	$ 0.98	$ 1.64	$ 0.79	$ 1.55	$ 0.57	$ 0.20	$ 1.17	$ 4.49
Diluted	$ 0.97	$ 1.61	$ 0.78	$ 1.52	$ 0.56	$ 0.19	$ 1.16	$ 4.42

(a) The fourth quarter of 2008 and a portion of the year 2008 included the results of Mueller B.V., a wholly owned Dutch subsidiary. Mueller B.V.'s results have been included since April 18, 2008, when it acquired Paltrok Beheer B.V. Additionally, the MEKO companies were acquired as of October 1, 2008. Mueller B.V.'s sales were $17,325,000 and net income was $626,400, or $0.53 per share ($0.52 diluted) for the fourth quarter of 2008. Mueller B.V.'s results for the partial year 2008 included sales of $30,871,000 and net income of $1,315,000, or $1.12 per share ($1.11 diluted).

Mueller B.V.'s net income for the fourth quarter and for the partial year 2008 was reduced by amortization of an intangible asset (the value of the backlog of the companies acquired during 2008). For the fourth quarter, amortization was $384,700 after tax, or $0.32 per share (basic and diluted); and for the partial year 2008, amortization was $1,112,000 after tax, or $0.95 per share ($0.94 diluted).

Selling, general, and administrative expenses included $6,526,000 for the fourth quarter of 2008 and $7,443,000 for the partial year of 2008, attributable to Mueller B.V.

(b) Fourth quarter 2007 results were favorably affected by an adjustment to the LIFO reserve, which increased net income by $2,163,000 after tax, 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. There was no material LIFO adjustment for the fourth quarter of 2008.

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
ALLEN O. CROUCH – Controller

MUELLER FIELD OPERATIONS, INC.

DIRECTORS

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

OFFICERS

AARON L. OWEN – President
DONALD E. GOLIK – Secretary
ALLEN O. CROUCH – Controller

MUELLER B.V.

MANAGING DIRECTOR

PAUL MUELLER COMPANY

MUELLER®

TRANSFER AGENT:
COMPUTERSHARE, INC.
250 Royall Street
Canton, MA 02021

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

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

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