PAUL MUELLER COMPANY

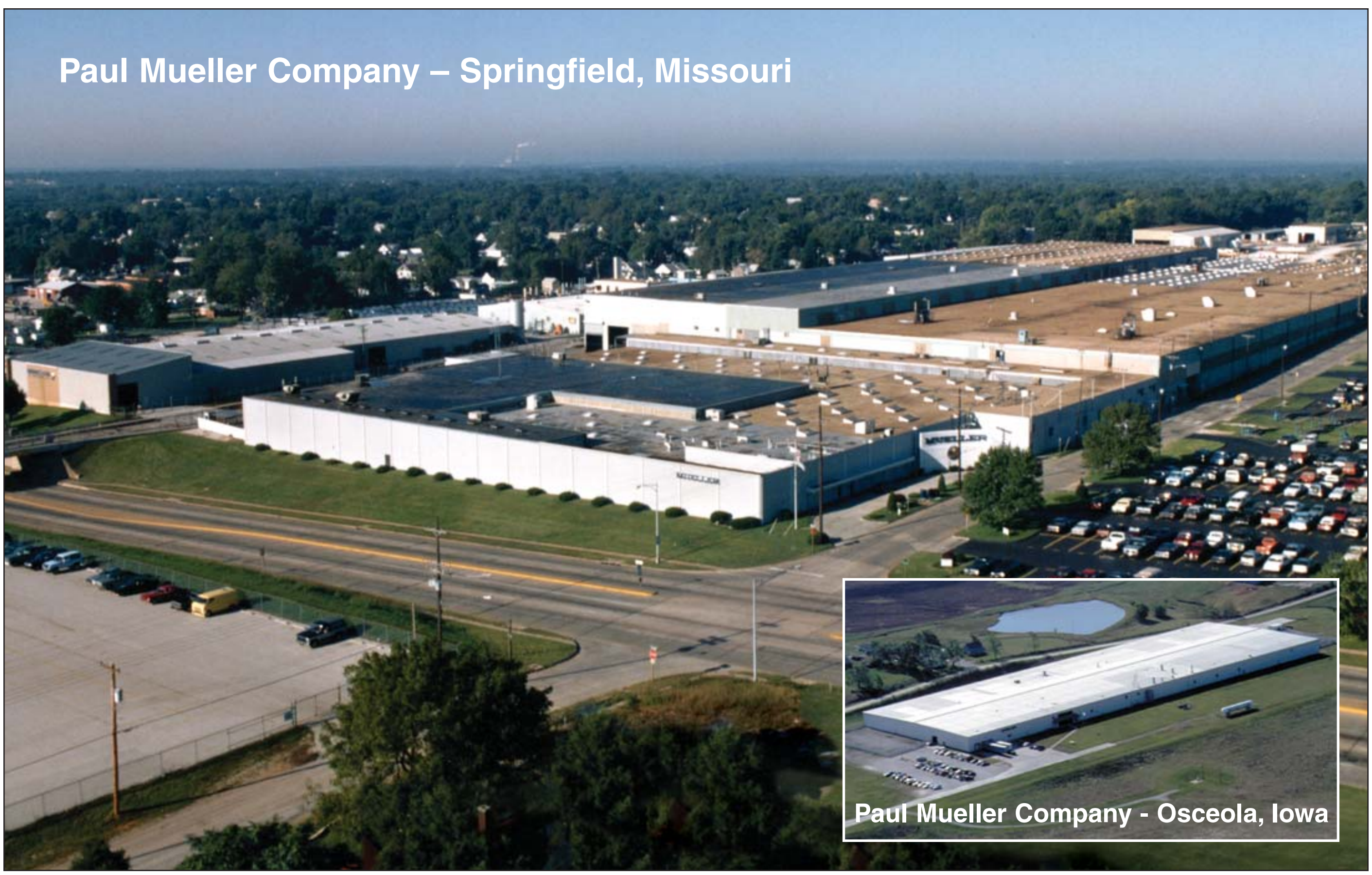
2005 Annual Report

Financial Highlights

Operating Results for the Year	2005	2004
Net Sales	$138,133,000	$112,928,000
Income (Loss) before Taxes	$ 7,137,000	$ (6,364,000)
Provision for Income Taxes	520,000	2,241,000
Net Income (Loss)	$ 6,617,000	$ (8,605,000)
Earnings (Loss) per Common Share:		
Basic	$ 5.68	$ (7.36)
Diluted	$ 5.64	$ (7.36)
Dividends Declared per Share	$ 2.40	$ 2.40

Year-End Position

	2005	2004
Total Assets	$ 55,171,000	$ 57,083,000
Working Capital	$ 7,705,000	$ 5,826,000
Current Ratio	1.28 : 1	1.19 : 1
Net Worth	$ 21,449,000	$ 17,000,000
Book Value per Share	$ 18.46	$ 14.26
Common Shares Outstanding	1,162,249	1,192,410
Backlog	$ 37,027,000	$ 46,324,000


Paul Mueller Company – Springfield, Missouri

Paul Mueller Company - Osceola, Iowa

Dear Shareholder,

We are pleased to report net income in excess of $6,600,000 for 2005 on total sales of more than $138,000,000. The 22% increase in sales and better operating margins were the key contributors to the improved financial performance compared to 2004. Additionally, 2005 results were favorably affected by a partial reduction in the valuation allowance for all of our net deferred tax assets; and this contributed $1,200,000 to our net income.

We began 2005 with a favorable backlog of $46,324,000 that included a large order for pharmaceutical modules. This backlog was instrumental in getting us off to a strong start for 2005 and produced very favorable results for the first quarter. During 2005, we also experienced operational improvements that contributed significantly to our results. These included a reduction in variances for labor and material, a reduction in warranty costs, and more effective project management. The more favorable cost variances were related to our execution process that consisted of better scope definition, an increased consistency in the estimating process, an improvement in "engineering to the estimate," and better communication among sales, engineering, and manufacturing. During 2005, we experienced a reduction in the value of warranty claims, better management of the direct costs associated with satisfying warranty claims, and improved administrative support. During the fourth quarter of 2005, we centralized our project management department resulting in more consistency to our order management performance. The increased focus on throughput and managing to committed ship dates contributed significantly to the $39,512,000 in sales attained during the fourth quarter. Additionally, fourth quarter sales positively affected our profitability by increasing our total operating income and reducing our inventory levels, which led to a lower LIFO reserve. The resulting favorable adjustment to the LIFO reserve increased our net income for the fourth quarter by $1,085,000. In addition to the operational improvements, our operating expenses were well controlled and favorable to budget for the year; while at the same time, higher-than-planned sales were achieved.

We were pleased with the performance of all of our segments, as their results during 2005 exceeded both the 2005 budget and 2004 performance.

Our Dairy Farm Equipment segment generated revenues that were 33% greater than 2004, and new order entry was 32% greater than budget. Income before tax was $4,513,000 for 2005 compared to $1,882,000 for 2004. The success during 2005 was the result of continuing favorable milk prices, an improvement in international sales, and the successful completion of the first full year of the OEM agreement announced in our 2004 annual report.

For our Industrial Equipment segment, overall revenues were 14% higher than 2004. Income before tax was $550,000 for 2005, while we incurred a loss of $8,969,000 for 2004. During 2005, our biopharmaceutical product line experienced a significant improvement over 2004 results. Additionally, our success in 2005 was favorably influenced by strong performances from the process systems and equipment, heat transfer, and commercial refrigeration product lines.

The Field Fabrication segment experienced a considerable increase in sales during 2005 with over $18,000,000 in sales, which represented an 85% increase over 2004. Higher sales led to a major enhancement in profitability, as income before tax increased from $128,000 for 2004 to $1,360,000 for 2005.

Our Transportation segment also experienced better results during 2005, as revenues were up by 29% over 2004 and income before tax increased from $32,000 to $168,000.

Looking forward to 2006, our backlog at December 31, 2005, was $37,027,000 compared to $46,324,000 at the beginning of 2005. As a result of the lower backlog, we anticipate getting off to a slow start in terms of sales for the first quarter of 2006. Although our starting backlog is $9,297,000 less than the beginning backlog for 2005, year-to-date order entry has been encouraging and potential projects have been identified to replenish the backlog.

We believe that the renewable fuels industry will provide excellent opportunities for business during 2006. To date, we have focused on the ethanol business and so far have entered $5,000,000 in orders for ethanol projects around the country. We are particularly well suited to serve the developing ethanol business in terms of supplying factory-built equipment, such as tanks, columns, and heat exchangers. Additionally, we have the capability in the Field Fabrication segment to supply large tanks that cannot be practicably built in the factory. We have the engineering capability and the manufacturing capacity to meet the demands of the marketplace.

During 2006, we will place increased emphasis on product and service development focused on improving the bottom line of our customers. Our marketing efforts will stress the combination of our products and services into an "integrated process solution." The integrated process solution will include tanks, agitation, refrigeration, instrumentation, controls, piping, heat exchangers, filtered water, and ongoing equipment maintenance and repair. In addition, we have the capability of transporting products to the customer's location, as well as completing the installation for them. We are uniquely positioned to offer one-stop shopping by taking the process solution from the "process flow" layout stage through equipment design, manufacturing, modularization, integration among processes, transportation to the site, and complete installation; and if necessary, we can build the entire plant.

We have excellent experience and capability in our engineering group. In recent years, we have expanded our resources in the process design area and actively marketed an integrated process solution offering. The integrated process solution approach leverages our products and services together to solve customers' process needs. Although we continue to engineer equipment solutions, we have also developed the process knowledge to link our various products into an integrated solution for the customer. During 2006, we will focus on "engineering to the estimate" by ensuring that we are improving our consistency between the equipment sold and the equipment produced for the customer, developing new technical/process capabilities for markets such as renewable fuels, and organizing so we can quickly flex to the ever-changing needs of the marketplace.

The outlook for the level of capital expenditures for 2006 is generally favorable, and we expect this to have a positive effect on our Industrial Equipment segment. We expect that two of our key product lines within the Industrial Equipment segment (biopharmaceutical and processing equipment) will show improvement during 2006 compared to 2005.

The favorable outlook for capital expenditures should also benefit the Field Fabrication segment during 2006. Historically, we have focused our field-construction activity primarily on the processing systems and equipment market. During 2006, we intend to expand our field capability to our other product lines. The field capabilities of installation, onsite erection, construction management, repair, and startup support can provide growth opportunities in all of our product lines.

We anticipate the market for Dairy Farm Equipment in 2006 will be more challenging than in 2005. The domestic market has seen very strong milk prices for the past couple of years, and producers have had the incentive to enlarge their herds. However, milk production is projected to exceed domestic demand during 2006, which will have the effect of driving down the milk price and slowing the rate of dairy farm expansion. While the domestic market will be challenging during 2006, we expect to see more activity in the international market for dairy farm equipment, primarily in Latin America.

Our ultimate goal is to achieve sustainable profitability. Our strategy to achieve profitable growth is through attaining top-line sales growth. We plan to expand our sales by a combination of increased market share in existing markets, the addition of new markets for our core competencies, and the development of new products and services that compliment our process solution marketing approach. The most effective and least capital-intensive way to increase sales is by marketing our products and services through an integrated process solution focused on solving the process challenges of our customers. The integrated process solutions approach moves us away from being a "commodity equipment supplier" by offering solutions that positively impact our customers' day-to-day operations and improve their bottom line profitability.

In summary, we are excited and confident moving into 2006, while at the same time recognizing the challenges that the marketplace and our competitors present. Paul Mueller Company has high name recognition, a reputation for quality products, excellent infrastructure, and broader capabilities than any competitor; and the Company has the best personnel in the industry. We recognize the need for change and welcome the opportunities that change will bring. The biggest keys in attaining our ultimate goal of sustainable profitability are the willingness to constantly challenge the business model of the day and the recognition of where tomorrow is taking us……..and that effort will never be finished.

We are pleased to report improved performance for 2005 as it reflects the culmination of hard work by our dedicated and loyal employees. Also, we want to thank our shareholders for their steadfast support, which has served to strengthen the commitment of the management team and all employees of the Company to strive for future growth and long-term sustainable profitability.

Matthew T. Detelich

Matthew T. Detelich
President and CEO

March 2006

Corporate Profile

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

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

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

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Consolidated Statements of Income
For the Years Ended December 31, 2005, 2004, and 2003

	2005	2004	2003
Net Sales	$ 138,133,454	$ 112,928,442	$ 116,766,018
Cost of Sales	109,983,037	100,261,804	93,177,115
Gross profit	$ 28,150,417	$ 12,666,638	$ 23,588,903
Selling, General and Administrative Expenses	21,304,333	19,341,330	21,370,524
Operating income (loss)	$ 6,846,084	$ (6,674,692)	$ 2,218,379
Other Income (Expense):			
Interest income	$ 128,038	$ 88,105	$ 78,148
Interest expense	(17,831)	(34,760)	(82,700)
Other, net	189,911	341,167	459,770
	$ 300,118	$ 394,512	$ 455,218
Income (loss) before provision for income taxes and equity in income (loss) of joint venture	$ 7,146,202	$ (6,280,180)	$ 2,673,597
Provision for Income Taxes	520,000	2,241,000	664,000
Income (Loss) before Equity in Income (Loss) of Joint Venture	$ 6,626,202	$ (8,521,180)	$ 2,009,597
Equity in Income (Loss) of Joint Venture	(9,026)	(83,703)	8,956
Net Income (Loss)	$ 6,617,176	$ (8,604,883)	$ 2,018,553
Earnings (Loss) per Common Share:			
Basic	$ 5.68	$ (7.36)	$ 1.73
Diluted	$ 5.64	$ (7.36)	$ 1.71

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

Consolidated Balance Sheets
December 31, 2005 and 2004

Assets

	2005	2004
Current Assets:		
Cash and cash equivalents	$ 3,931,083	$ 4,005,042
Accounts receivable, less reserve for doubtful accounts of $441,297 for 2005 and $713,545 for 2004	22,034,219	19,478,131
Income taxes receivable	286,502	1,166,487
Costs and estimated earnings in excess of billings	1,145,519	281,109
Inventories: Raw materials and components	$ 3,918,091	$ 5,897,232
Work-in-process	1,166,655	2,847,559
Finished goods	964,399	1,488,219
	$ 6,049,145	$ 10,233,010
Prepayments	1,917,256	947,764
Total Current Assets	$ 35,363,724	$ 36,111,543
Property, Plant, and Equipment (at cost):		
Land and land improvements	$ 3,796,458	$ 3,754,462
Buildings	14,948,229	14,804,717
Fabrication equipment	41,069,244	40,051,867
Transportation, office, and other equipment	13,297,201	13,101,058
Construction-in-progress	729,182	367,187
	$ 73,840,314	$ 72,079,291
Less: Accumulated depreciation	55,939,940	53,158,023
	$ 17,900,374	$ 18,921,268
Other Assets	1,907,399	2,049,816
	$ 55,171,497	$ 57,082,627

Liabilities and Shareholders' Investment

	2005	2004
Current Liabilities:		
Current maturities of long-term debt	$ 137,739	$ 362,750
Accounts payable	5,296,618	6,719,074
Accrued expenses: Income taxes	863,243	599,889
Payroll and benefits	9,760,347	3,567,725
Vacations	2,900,956	2,879,021
Other	845,797	1,210,593
Advance billings	5,643,030	7,798,779
Billings in excess of costs and estimated earnings	2,211,099	7,147,696
Total Current Liabilities	$ 27,658,829	$ 30,285,527
Long-Term Pension Liabilities	4,900,734	9,067,851
Other Long-Term Liabilities	1,162,621	728,876
Contingencies		
Shareholders' Investment:		
Common stock, par value $1 per share – Authorized 20,000,000 shares – Issued 1,370,475 shares for 2005 and for 2004	$ 1,370,475	$ 1,370,475
Preferred stock, par value $1 per share – Authorized 1,000,000 shares – No shares issued	–	–
Paid-in surplus	5,172,394	5,182,090
Retained earnings	23,329,807	19,551,395
	$ 29,872,676	$ 26,103,960
Less: Treasury stock, 208,226 shares for 2005 and 178,065 shares for 2004, at cost	3,770,201	2,675,846
Deferred compensation	150,944	361,066
Accumulated other comprehensive loss	4,502,218	6,066,675
	$ 21,449,313	$ 17,000,373
	$ 55,171,497	$ 57,082,627

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

Consolidated Statements of Shareholders' Investment For the Years Ended December 31, 2005, 2004, and 2003

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Deferred Compen-sation	Accumulated Other Com-prehensive Loss	Total
Balance – 12-31-2002..	$ 1,360,775	$ 4,858,290	$31,860,372	$(2,593,447)	$ (322,229)	$(6,147,013)	$29,016,748
Add (Deduct):							
Net income	–	–	2,018,553	–	–	–	2,018,553
Other comprehensive income, net of tax:							
Foreign currency translation adjustment....	–	–	–	–	–	(37,506)	(37,506)
Change in minimum pension liability.......	–	–	–	–	–	962,794	962,794
Comprehensive income.	–	–	–	–	–	–	$ 2,943,841
Dividends, $2.40 per common share	–	–	(2,859,830)	–	–	–	(2,859,830)
Restricted stock issued .	8,700	295,800	–	–	(304,500)	–	–
Amortization	–	–	–	–	146,737	–	146,737
Balance – 12-31-2003..	$ 1,369,475	$ 5,154,090	$31,019,095	$(2,593,447)	$ (479,992)	$(5,221,725)	$29,247,496
Add (Deduct):							
Net (loss)....................	–	–	(8,604,883)	–	–	–	(8,604,883)
Other comprehensive loss, net of tax:							
Foreign currency translation adjustment....	–	–	–	–	–	8,656	8,656
Change in minimum pension liability.......	–	–	–	–	–	(853,606)	(853,606)
Comprehensive (loss)...	–	–	–	–	–	–	$(9,449,833)
Dividends, $2.40 per common share	–	–	(2,862,817)	–	–	–	(2,862,817)
Restricted stock issued .	1,000	28,000	–	–	(29,000)	–	–
Treasury stock acquisition................	–	–	–	(82,399)	–	–	(82,399)
Amortization	–	–	–	–	147,926	–	147,926
Balance – 12-31-2004..	$ 1,370,475	$ 5,182,090	$19,551,395	$(2,675,846)	$ (361,066)	$(6,066,675)	$17,000,373
Add (Deduct):							
Net income	–	–	6,617,176	–	–	–	6,617,176
Other comprehensive income, net of tax:							
Foreign currency translation adjustment.....	–	–	–	–	–	32,928	32,928
Change in minimum pension liability.......	–	–	–	–	–	1,531,529	1,531,529
Comprehensive income.	–	–	–	–	–	–	$ 8,181,633
Dividends, $2.40 per common share	–	–	(2,838,764)	–	–	–	(2,838,764)
Restricted stock forfeiture	–	(9,696)	–	(67,860)	77,556	–	–
Treasury stock acquisition................	–	–	–	(1,026,495)	–	–	(1,026,495)
Amortization	–	–	–	–	132,566	–	132,566
Balance – 12-31-2005..	$ 1,370,475	$ 5,172,394	$23,329,807	$(3,770,201)	$ (150,944)	$(4,502,218)	$21,449,313

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2005, 2004, and 2003

	2005	2004	2003
Cash Flows from Operating Activities:			
Net income (loss)	$ 6,617,176	$ (8,604,883)	$ 2,018,553
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in loss (income) of joint venture	9,026	83,703	(8,956)
Bad debt (recovery) expense	(24,382)	(163,540)	246,026
Depreciation and amortization	3,102,417	3,548,876	4,037,461
Loss (gain) on sales of equipment	4,763	12,145	(18,514)
Valuation allowance – change	(2,980,800)	6,192,969	–
Changes in assets and liabilities –			
(Increase) decrease in accounts and notes receivable	(1,651,721)	(3,351,996)	5,602,123
(Increase) decrease in costs in excess of estimated earnings and billings	(864,410)	1,895,026	818,797
Decrease (increase) in inventories	4,183,865	7,065,842	(4,969,609)
Decrease (increase) in prepayments	230,508	(198,529)	(351,864)
(Increase) in other assets	(40,771)	(14,139)	(181,079)
Decrease (increase) in deferred taxes	1,780,800	(1,146,227)	(220,891)
(Decrease) increase in accounts payable	(1,422,456)	2,438,759	(2,761,321)
Increase (decrease) in accrued expenses	6,113,115	(5,065,195)	3,404,484
(Decrease) increase in advance billings	(2,155,749)	(6,377,690)	6,475,469
(Decrease) increase in billings in excess of costs and estimated earnings	(4,936,597)	6,686,726	435,970
(Decrease) increase in other long-term liabilities	(2,089,950)	2,758,280	(2,149,280)
Net Cash Provided by Operating Activities	$ 5,874,834	$ 5,760,127	$12,377,369
Cash Flows (Requirements) from Investing Activities:			
Proceeds from sales of equipment	$ 200	$ –	$ 42,350
Additions to property, plant, and equipment	(1,953,921)	(1,280,340)	(2,774,369)
Treasury stock acquisitions	(1,026,495)	(82,399)	–
Net Cash (Required) by Investing Activities	$ (2,980,216)	$ (1,362,739)	$ (2,732,019)
Cash Flow (Requirements) Provisions from Financing Activities:			
Repayment of short-term borrowings	$ –	$ –	$ (4,183,155)
Long-term debt proceeds	200,505	–	–
Repayment of long-term debt	(330,318)	(417,000)	(417,000)
Dividends paid	(2,838,764)	(2,862,817)	(2,859,830)
Net Cash (Required) by Financing Activities	$ (2,968,577)	$ (3,279,817)	$ (7,459,985)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (73,959)	$ 1,117,571	$ 2,185,365
Cash and Cash Equivalents at Beginning of Year	4,005,042	2,887,471	702,106
Cash and Cash Equivalents at End of Year	$ 3,931,083	$ 4,005,042	$ 2,887,471

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

Notes to Consolidated Financial Statements
December 31, 2005, 2004, and 2003

(1) Summary of Accounting Policies:

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

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

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

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

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

December 31, 2005 and 2004, were as follows:

	2005	2004
Costs incurred on uncompleted contracts	$ 15,101,859	$ 19,084,672
Estimated earnings	3,695,764	7,201,086
	$ 18,797,623	$ 26,285,758
Less: Billings to date	19,863,203	33,152,345
	$ (1,065,580)	$ (6,866,587)

Amounts included in the accompanying Consolidated Balance Sheets at December 31, 2005 and 2004, under the following captions were:

	2005	2004
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 1,145,519	$ 281,109
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,211,099)	(7,147,696)
	$ (1,065,580)	$ (6,866,587)

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 $1,178,000 at December 31, 2005, and $558,000 at December 31, 2004.

Inventories – The Company's inventories are recorded at the lower of cost on a last-in, first-out ("LIFO") basis or market. Cost of subsidiary inventories is determined on a first-in, first-out ("FIFO") method; and they are not significant to the Consolidated Financial Statements. Cost includes material, labor, and manufacturing burden required in the production of products. Statement of Financial Accounting Standards ("SFAS") No. 151 – "Inventory Costs," issued November 2004, will be adopted effective for the Company's 2006 calendar year. It is not expected to 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 $9,286,500, $9,964,900, and $7,298,400 higher than those reported at December 31, 2005, 2004, and 2003, respectively. A reduction in inventory quantities during 2005 resulted in liquidation of LIFO quantities recorded at lower costs prevailing in prior years compared with the cost of 2004 purchases. The effect was to increase cost of sales, which decreased the net income by $2,200.

Research and Development – Research and development expenses are charged to expense as incurred and were $672,900 during 2005, $842,900 during 2004, and $1,024,800 during 2003.

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

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

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

Impairment of Plant and Equipment – If facts and circumstances indicate that the carrying value of identifiable plant and equipment may be impaired, the Company would perform an evaluation of recoverability. If an evaluation was 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 is required.

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

	2005	2004	2003
Net income (loss)	$ 6,617,176	$ (8,604,883)	$ 2,018,553
Shares for basic earnings per common share – Weighted-average shares outstanding	1,165,416	1,169,925	1,168,021
Dilutive effect of restricted stock and stock options	7,062	–	12,130
Shares for diluted earnings per common share – Adjusted weighted-average shares outstanding	1,172,478	1,169,925	1,180,151
Earnings (loss) per common share:			
Basic	$ 5.68	$(7.36)	$ 1.73
Diluted	$ 5.64	$(7.36)	$ 1.71

Stock-Based Compensation – As of December 31, 2005, the Company had two stock-based compensation plans for employees and non-employee directors, which are described more fully in Note (8). The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25 – "Accounting for Stock Issued to Employees" and related interpretations. No stock-based compensation cost has been reflected in net income (loss), as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grants. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 – "Accounting for Stock-Based Compensation" to stock-based employee and non-employee director compensation.

	Year Ended December 31		
	2005	2004	2003
Net income (loss), as reported	$ 6,617,176	$ (8,604,883)	$ 2,018,553
Less: Stock-based compensation expense determined under fair-value-based method for all awards, net of related tax	35,056	59,217	66,455
Pro forma net income (loss)	$ 6,582,120	$ (8,664,100)	$ 1,952,098
Earnings (loss) per common share:			
Basic – as reported	$ 5.68	$(7.36)	$ 1.73
Basic – pro forma	$ 5.65	$(7.41)	$ 1.67
Diluted – as reported	$ 5.64	$(7.36)	$ 1.71
Diluted – pro forma	$ 5.61	$(7.41)	$ 1.65

Comprehensive Income – The components of comprehensive income (loss) for the years ended December 31, 2005, 2004, and 2003, were as follows:

	2005	2004	2003
Foreign currency translation adjustment	$ 32,928	$ 4,480	$ (59,533)
Tax (benefit)	–	(4,176)	(22,027)
Foreign currency translation adjustment, net of tax	$ 32,928	$ 8,656	$ (37,506)
Change in minimum pension liability	$ 1,531,529	$ (853,606)	$ 1,528,244
Tax provision	–	–	565,450
Change in minimum pension liability, net of tax	$ 1,531,529	$ (853,606)	$ 962,794
Other comprehensive income (loss)	$ 1,564,457	$ (844,950)	$ 925,288

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

Interest and income tax payments for each of the three years during the period ended December 31, 2005, were as follows:

	2005	2004	2003
Interest payments	$ 23,600	$ 34,400	$ 80,000
Income tax payments	$ 1,538,300	$ 161,000	$ 1,868,000

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

	Shares	
	Common Stock Issued	Treasury Stock
Balance, December 31, 2002	1,360,775	175,704
Restricted stock issued	8,700	–
Balance, December 31, 2003	1,369,475	175,704
Restricted stock issued	1,000	–
Treasury stock acquisition	–	2,361
Balance, December 31, 2004	1,370,475	178,065
Treasury stock acquisition	–	27,821
Restricted stock forfeiture	–	2,340
Balance, December 31, 2005	1,370,475	208,226

(2) Retirement Plans:

The Company has a Profit Sharing and Retirement Savings Plan [401(k) plan] in which substantially all employees are eligible to participate. The plan provides for a match of employees' contributions up to a specified limit. The plan also has a profit-sharing feature whereby an additional match is made if net income reaches predetermined levels established annually by the Board of Directors. The assets of the plan are deposited with a trustee and are invested at the employee's option in one or more investment funds. Total Company contributions to the plan were $589,400 for 2005, $370,000 for 2004, and $382,000 for 2003.

The Company has pension plans covering substantially all employees. Benefits under the plans are based either on final average pay or a flat benefit formula.

Total pension expense under the plans was $2,960,100 for 2005, $2,874,600 for 2004, and $2,337,900 for 2003. Management's policy is to fund pension contributions that are currently deductible for tax purposes. A contribution of $5,388,600 will be made during 2006, and the amount has been included in accrued expenses on the accompanying Consolidated Balance Sheets. The Company uses a December 31 measurement date for its plans.

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

	2005	2004
Change in Benefit Obligation –		
Benefit obligation at beginning of year	$ 59,640,300	$ 53,470,700
Service cost	1,635,500	1,896,200
Interest cost	3,468,400	3,276,600
Actuarial (gain) loss	(496,800)	2,912,500
Benefits paid and expenses	(2,016,800)	(1,915,700)
Benefit obligation at end of year	$ 62,230,600	$ 59,640,300
Change in Plan Assets –		
Fair value of plan assets at beginning of year	$ 43,652,000	$ 38,349,900
Actual return on plan assets	2,370,700	4,236,800
Employer contribution	1,400,200	2,981,000
Benefits paid and expenses	(2,016,800)	(1,915,700)
Fair value of plan assets at end of year	$ 45,406,100	$ 43,652,000
Reconciliation –		
Funded status	$ (16,824,500)	$ (15,988,300)
Unrecognized net actuarial loss	13,935,500	14,445,000
Unrecognized prior service cost	458,500	672,800
Minimum liability adjustment	(7,858,900)	(9,597,500)
(Accrued) benefit cost	$ (10,289,400)	$ (10,468,000)

Amounts recognized in the Consolidated Balance Sheets at December 31 were as follows:

	2005	2004
Balance Sheet Reconciliation –		
(Accrued) benefit cost	$ (10,289,400)	$ (10,468,000)
Minimum pension liability	(7,858,900)	(9,597,500)
Intangible asset	415,200	622,300
Accumulated other comprehensive loss (pretax)	7,443,700	8,975,200
(Accrued) benefit cost	$ (10,289,400)	$ (10,468,000)

Components of pension expense for the three years were:

	2005	2004	2003
Service cost	$ 1,635,500	$ 1,896,200	$ 1,564,600
Interest cost	3,468,400	3,276,600	3,123,500
Expected return on plan assets	(3,354,200)	(3,226,800)	(2,943,200)
Amortization of prior service cost	213,100	214,300	217,000
Recognized net actuarial loss	997,300	714,300	376,000
Pension expense	$ 2,960,100	$ 2,874,600	$ 2,337,900

Accumulated benefit obligations of the pension plans exceeded plan assets at December 31 as follows:

	2005	2004
Projected benefit obligations	$ 62,230,600	$ 59,640,300
Accumulated benefit obligations	$ 55,612,500	$ 53,995,300
Fair value of plan assets	$ 45,406,100	$ 43,652,000

The increase (decrease) in minimum liability included in other comprehensive income/loss for each year was as follows:

	2005	2004
(Decrease) increase in minimum liability	$ (1,531,500)	$ 853,600

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

	2005	2004
Discount rate	5.80%	5.75%
Rate of compensation increase	3.00%	3.00%

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

	2005	2004	2003
Discount rate	5.75%	6.00%	6.50%
Expected long-term return on plan assets	8.50%	8.50%	8.00%
Rate of compensation increase	3.00%	4.25%	4.25%

Pension expense is calculated based upon a number of actuarial assumptions established on January 1 of the applicable year, detailed in the table above, including the weighted-average discount rate, rate of increase in future compensation levels for the applicable plan, and the expected long-term rate of return on plan assets. The discount rate used by the Company for valuing pension liabilities is based on review of high quality corporate bond yields with maturities approximating the remaining life of the projected benefit obligations. The discount rate used to determine pension expense was reduced from 6.0% for 2004 to 5.75% for 2005. The effect of the rate reduction was to increase pension expense by $268,900 for 2005. 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 earnings 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 8.5% for 2004 and 2005.

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

	2005	2004
Asset Category:		
Fixed income	40%	30%
Equities	57%	67%
Other	3%	3%
	100%	100%

The long-term asset allocation on average will approximate 60% in equities, with 40% in fixed income securities. The objective, on a long-term basis, is to achieve an excess return over the actuarial assumption for the expected long-term rate of return on plan assets. The investment strategy employed is a long-term risk control approach using diversified investment options with no exposure to volatile investment options, such as financial futures, derivatives, etc. The plans use a diversified allocation of equity and fixed income securities that is customized to each plan's cash flow benefit needs.

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

2006	$ 2,150,200
2007	2,503,800
2008	2,747,300
2009	2,945,700
2010	3,223,000
2011 through 2015	19,605,700
	$ 33,175,700

(3) Income Taxes:

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

	2005	2004	2003
Current tax expense (benefit)	$ 1,720,000	$ (1,880,200)	$ 1,415,600
Deferred, net	1,780,800	(2,071,800)	(751,600)
Valuation allowance – change	(2,980,800)	6,193,000	–
	$ 520,000	$ 2,241,000	$ 664,000

A non-cash credit of $1,200,000 was recorded during the fourth quarter of 2005 to reduce a portion of the valuation allowance established during 2004 for all of the Company's net deferred tax assets. The valuation allowance was reduced due to the improved performance of the Company during 2005. The non-cash credit increased net income for 2005 by $1,200,000 and has been included in the tax provision in the accompanying Consolidated Statements of Income for the year.

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

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. As previously mentioned, the Company incurred a cumulative loss before taxes for the past three years ended December 31, 2004; and a full valuation allowance was required for all net deferred tax assets. The valuation allowance will be increased or decreased based on future changes in the Company's net deferred tax assets. The detail of the deferred tax assets and liabilities as of December 31, 2005 and 2004, is shown below.

	2005	2004
Deferred Tax Assets:		
Workers compensation	$ 219,400	$ 166,700
Vacation	963,300	1,007,300
Warranty	101,900	197,400
Doubtful accounts	94,800	273,000
Pensions	2,872,900	3,715,100
Healthcare benefits	244,300	232,200
Inventory	179,800	329,200
Other	536,600	302,200
Tax credit carryforwards	1,017,000	1,860,500
	$ 6,230,000	$ 8,083,600

	2005	2004
Deferred Tax Liabilities:		
Depreciation	1,817,800	1,890,600
Net	$ 4,412,200	$ 6,193,000
Valuation allowance	3,212,200	6,193,000
Net Deferred Tax Assets	$ 1,200,000	$ –

As of December 31, 2005, net current deferred tax assets were $2,791,100 and net non-current deferred tax assets were $1,621,100 and were offset by a valuation allowance of $3,212,200. Current deferred tax assets of $1,200,000 at December 31, 2005, are included in prepayments on the accompanying Consolidated Balance Sheets.

At December 31, 2005, the Company had tax credit carryforwards. AMT credit carryforwards total $123,000 and may be carried forward indefinitely. General business credits total $894,000 and may be carried forward twenty years. The years of expiration and related amounts are as follows:

2023	$ 256,900
2024	$ 303,000
2025	$ 334,100

A valuation allowance totaling $6,193,000 was established to offset net current deferred tax assets of $3,847,700 and net non-current deferred tax assets of $2,345,300 as of December 31, 2004.

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 during the period ended December 31, 2005, follows:

	2005	2004	2003
Statutory federal income tax expense (benefit)	$ 2,429,700	$ (2,135,400)	$ 909,000
Increase (decrease) in taxes resulting from:			
Tax credits	(905,100)	(1,167,700)	(332,200)
Net operating loss	(468,500)	–	–
State tax, net of federal benefit	217,900	(632,900)	88,100
Effect of deferred tax assets	484,900	–	–
Other, net	(38,900)	(16,000)	(900)
Valuation allowance	(1,200,000)	6,193,000	–
	$ 520,000	$ 2,241,000	$ 664,000

(4) Borrowings:

The Company has a $3,000,000 bank borrowing facility that expires on May 31, 2006, which management intends to renew. Borrowings under the facility incur interest at the 30-day LIBOR Daily Floating Rate plus 1.75%. At December 31, 2005, there were no outstanding borrowings under the facility. The Company was in compliance with all borrowing facility covenants at December 31, 2005 and 2004.

At December 31, 2005, the Company had a loan balance due of $88,300. The original loan of $100,000, dated May 16, 2005, was used for plant expansion in Iowa and is interest free and requires equal monthly principal payments for five years. Additionally, the Company had a note payable of approximately $94,600 at December 31, 2005. The original note of $100,505 is secured by transportation equipment and has a variable interest rate at the Overnight LIBOR Daily Floating Rate plus 1.6% and is repayable monthly over five years.

(5) Guarantees:

The Company has a $7,000,000 standby letter-of-credit facility; and as of December 31, 2005, there were standby letters of credit totaling $1,131,298 issued under the facility and all will expire within one year.

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

The following is a reconciliation of changes in the warranty reserve for the years ended December 31, 2005 and 2004:

	2005	2004
Beginning balance	$ 901,871	$ 1,326,838
Costs incurred to satisfy warranty claims	(889,108)	(1,349,654)
Aggregate warranty reserves made	742,221	639,387
Aggregate changes to warranty reserves	(193,996)	285,300
Ending balance	$ 560,988	$ 901,871

(6) Contingencies:

A lawsuit was filed in May 2002 against the Company alleging breach of contract/breach of express warranty in connection with the sale of a heat exchanger in October 2000. The plaintiff alleged in the suit that it had suffered direct, consequential, and incidental damages in excess of $3,100,000. On March 5, 2004, the parties reached an out-of-court settlement of the lawsuit. Under the settlement, the plaintiff received $600,000. The Company paid $300,000 of the settlement, and the balance was covered by the Company's product liability carrier. The Company's liability of $300,000 was reflected in the results for 2003. The effect on 2003 results was to reduce net income by $189,000, or $0.16 per share on a diluted basis.

The Company and its subsidiaries are involved in other 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 $485,700 and terms exceeding one year. It is expected that leases will be renewed or replaced as they expire. The future minimum lease payments for each of the years subsequent to December 31, 2005, will be:

2006	$ 243,900
2007	148,800
2008	69,500
2009	23,500
	$ 485,700

(7) Segment Data:

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

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

Reportable segments are managed separately because they offer different products and serve different markets. Industrial Equipment products have been aggregated because they are designed and built to a customer's specifications and they use common processes and resources in the Springfield, Missouri, manufacturing facility. Similar economic conditions affect the long-term financial performance of the product lines included in the Industrial Equipment segment. The Dairy Farm Equipment segment includes standard products that are built to stock in the Osceola, Iowa, manufacturing facility and are available for sale from inventory. The demand for Dairy Farm Equipment products is affected by the economic factors that influence the profitability of dairy farmers. The Field Fabrication segment uses different skills and fabrication methods and requires different technology and expertise than other segments. The Transportation segment is a trucking operation.

Net sales include revenues from sales to unaffiliated and affiliated customers before elimination of intersegment sales. Intersegment eliminations are primarily sales from the Industrial Equipment segment and Transportation segment to the Field Fabrication segment.

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

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

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

	2003						
	Dairy Farm Equipment	Industrial Equipment	Field Fabrication	Transpor-tation	Other / Corporate	Intersegment Eliminations	Consolidated
Net sales	$14,306,860	$91,379,067	$ 8,299,941	$ 3,918,474	$ 594,564	$ (1,732,888)	$116,766,018
Depreciation & amortization expense	$ 298,145	$ 2,373,233	$ 754,283	$ 152,232	$ 459,568	$ –	$ 4,037,461
Income (loss) before income tax	$ 435,469	$ 1,347,191	$ (225,163)	$ 454,419	$ 661,681	$ –	$ 2,673,597
Assets	$ 7,610,101	$42,742,818	$ 3,569,769	$ 2,639,220	$11,092,952	$ –	$ 67,654,860
Additions to property, plant & equipment	$ 9,599	$ 2,038,914	$ 89,670	$ 289,340	$ 346,846	$ –	$ 2,774,369

Revenues from external customers by product category for the three years ended December 31, 2005, were:

	2005	2004	2003
Milk-cooling and storage equipment	$ 24,849,312	$ 18,915,382	$ 12,950,878
Process vessels and tanks	60,928,234	47,830,835	45,314,532
Other industrial equipment	52,355,908	46,182,225	58,500,608
	$138,133,454	$112,928,442	$116,766,018

Revenues from external customers by geographic location are attributed to countries based on the location of the customer and for the three years ended December 31, 2005, were:

	2005	2004	2003
United States	$105,902,082	$ 93,593,998	$103,650,529
North America (excluding the U.S.)	12,894,644	9,913,248	7,183,100
Asia and the Far East	4,364,850	4,180,296	3,378,499
Europe	11,984,453	3,993,742	1,474,634
Other areas	2,987,425	1,247,158	1,079,256
	$138,133,454	$112,928,442	$116,766,018

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

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

During 2005 and 2004, sales to any one customer were not in excess of 10% of consolidated sales. During 2003, sales of $13,045,000 for Industrial Equipment to an individual U.S. customer exceeded 10% of consolidated sales.

(8) Long-Term Incentive Plans:

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

The Employee Plan provides for two types of awards for executives and key employees: restricted stock and non-qualified stock options. An aggregate of 180,000 shares of common stock can be issued under the Employee Plan, with 55,000 shares being the aggregate maximum number of shares that may be granted as restricted stock.

Under the Director Plan, non-employee directors can receive restricted stock and non-qualified stock options. An aggregate of 60,000 shares can be issued under the Director Plan in either restricted stock or non-qualified options.

The exercise price of each option under both Plans must equal or exceed the closing market price of the Company's common stock on the day before the effective date of grant. The options vest and are exercisable five years after the date of grant, and they must be exercised no later than ten years from the date of grant.

Under the Plans, restricted shares of stock vest five years after the effective date of grant. Compensation expense was computed by multiplying the number of shares granted by the fair market value of the common stock on the date of grant. The expense is being recognized ratably over the vesting period. Compensation expense recognized for the restricted shares was $132,566, $147,926, and $146,737 for the years ended December 31, 2005, 2004, and 2003, respectively. At December 31, 2005, 13,750 shares of restricted stock were outstanding under the Plans.

A summary of activity in the Company's stock option plans is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2002	58,200	$ 35.76
Granted	23,300	35.00
Outstanding at December 31, 2003	81,500	$ 35.54
Granted	2,800	29.13
Outstanding at December 31, 2004	84,300	$ 35.33
Forfeited	(28,000)	35.75
Outstanding at December 31, 2005	56,300	$ 35.12

The following table summarizes information about stock options outstanding as of December 31, 2005:

	Options Outstanding		
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Years	Average Exercise Price
$29.13 – $36.00	56,300	5.97	$ 35.12

Options outstanding as of December 31, 2005, included 13,700 shares exercisable at $36.00 per share and 2,000 shares exercisable at $35.00 per share.

The Company applies APB No. 25 – "Accounting for Stock Issued to Employees" to account for employee stock options. Accordingly, no compensation expense has been recognized for non-qualified stock options.

Pro forma net income and earnings-per-share information (as required by SFAS No. 123 – "Accounting for Stock-Based Compensation") has been determined as if the Company had accounted for all stock options under the fair-value method described by SFAS No. 123.

The fair values for options were estimated at the date of grant using the Black-Scholes Option Pricing Model, with the following weighted-average assumptions:

	Stock Option Grants					
	October 1, 2004	May 16, 2003	July 25, 2002	May 20, 2002	March 1, 2001	May 13, 1999
Interest rate	3.70%	3.40%	4.80%	4.80%	4.90%	5.80%
Expected life in years	7.5	7.5	7.5	7.5	7.5	7.5
Expected volatility	27.40%	30.20%	36.10%	38.80%	64.20%	53.40%
Expected dividend yield	8.24%	8.17%	8.00%	7.50%	9.00%	7.40%
Value per option	$ 2.88	$ 4.94	$ 5.05	$ 6.35	$ 8.58	$ 8.60

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. In addition, option pricing models require the input of subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics different from those of traded options, the model, in the opinion of management, does not necessarily provide a reliable single measure of the fair value of its options.

For purposes of pro forma disclosures, the estimated fair value of the options is being amortized to expense ratably over the vesting period. The pro forma disclosures required by SFAS No. 123 are not likely to be representative of the effects on reported net income or losses for future years. The pro forma information follows:

	2005	2004	2003
Pro forma net income (loss)	$ 6,582,120	$ (8,664,100)	$ 1,952,098
Pro forma earnings (loss) per common share:			
Basic	$ 5.65	$(7.41)	$ 1.67
Diluted	$ 5.61	$(7.41)	$ 1.65

Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004) – "Accounting for Share-Based Payment," issued December 2004, will be adopted effective for the Company's 2006 calendar year. It is not expected to have a material effect on the Company's financial position or results of operations.

(9) Shareholder Rights Plan:

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

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

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

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

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

Independent Auditors' Report

Board of Directors
Paul Mueller Company
Springfield, Missouri

We have audited the accompanying consolidated balance sheet of PAUL MUELLER COMPANY (a Missouri corporation) AND SUBSIDIARIES as of December 31, 2005, and the related statements of income, shareholders' investment, 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, 2004, and for the years ended December 31, 2004 and 2003, were audited by other accountants whose report dated February 11, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of Paul Mueller Company and Subsidiaries as of December 31, 2005, 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.

BKD, LLP

February 17, 2006

Selected Financial Data – Five-Year Summary and Market and Dividend Information by Quarter For the Years 2005 and 2004

Selected Financial Data – Five-Year Summary

	2005	2004	2003	2002	2001
Net sales	$ 138,133,454	$ 112,928,442	$ 116,766,018	$ 114,149,434	$ 94,288,219
Net income (loss)	$ 6,617,176	$ (8,604,883)	$ 2,018,553	$ 1,889,158	$ (1,359,840)
Earnings (loss) per common share:					
Basic	$ 5.68	$ (7.36)	$ 1.73	$ 1.62	$ (1.16)
Diluted	$ 5.64	$ (7.36)	$ 1.71	$ 1.61	$ (1.16)
Common shares outstanding	1,162,249	1,192,410	1,193,771	1,185,071	1,179,721
Dividends declared per common share	$ 2.40	$ 2.40	$ 2.40	$ 2.40	$ 2.40
Total assets	$ 55,171,497	$ 57,082,627	$ 67,654,860	$ 68,330,756	$ 55,910,473
Long-term obligation, net of current maturities	$ 708,420	$ 728,876	$ 992,208	$ 1,604,566	$ 947,189
Shareholders' investment	$ 21,449,313	$ 17,000,373	$ 29,247,496	$ 29,016,748	$ 35,963,324
Working capital	$ 7,704,895	$ 5,826,016	$ 10,723,341	$ 13,304,896	$ 13,910,555
Book value per common share	$ 18.46	$ 14.26	$ 24.50	$ 24.49	$ 30.48
Average number of employees	816	843	1,007	968	876

Market and Dividend Information by Quarter

	2005 Quarter Ended				2004 Quarter Ended			
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**
Market Price of Stock								
High	$ 28.00	$ 31.90	$ 34.70	$ 32.00	$ 41.79	$ 41.58	$ 31.70	$ 31.23
Low	$ 21.50	$ 25.00	$ 28.50	$ 27.00	$ 40.00	$ 31.00	$ 26.83	$ 29.00
Cash Dividends								
Declared per share	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60	$ 0.60

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

Financial Highlights by Quarter (Unaudited)
For the Years 2005 and 2004

(In Thousands, Except Per Share Data)

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	2005	2004	2005	2004	2005	2004 (c)	2005 (a)(b)	2004 (d)(e)
Net sales	$ 32,783	$ 18,311	$ 34,516	$ 25,390	$ 31,322	$ 33,948	$ 39,512	$ 35,279
Gross profit	$ 7,630	$ 1,465	$ 6,545	$ 2,171	$ 5,469	$ 3,813	$ 8,506	$ 5,218
Net income (loss)	$ 2,025	$ (2,371)	$ 345	$ (1,725)	$ 418	$ (5,324)	$ 3,829	$ 815
Earnings (loss) per common share:								
Basic	$ 1.73	$ (2.03)	$ 0.29	$ (1.48)	$ 0.36	$ (4.55)	$ 3.33	$ 0.70
Diluted	$ 1.72	$ (2.03)	$ 0.29	$ (1.48)	$ 0.36	$ (4.55)	$ 3.31	$ 0.69

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

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

(c) A non-cash charge of $5,047,000 was recorded during the third quarter of 2004 to establish a valuation allowance for all of the Company's net deferred tax assets. As of September 30, 2004, the Company was in a cumulative loss-before-tax position for the prior three years; and this was sufficient objective evidence to preclude the assertion that the ultimate realization of the net deferred tax assets is more likely than not, and a full valuation allowance is required under the provisions of Statement of Financial Accounting Standards No. 109 – "Accounting for Income Taxes."

(d) Fourth quarter 2004 results were unfavorably affected by an adjustment to the LIFO reserve, which decreased net income by $192,000, or $0.16 per share on a basic and diluted basis.

(e) An additional $1,146,000 was recorded as a valuation allowance for the increase in net deferred tax assets during the fourth quarter of 2004.

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.

DAVID T. MOORE
Vice President and Secretary

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

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

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

CHAIRMAN EMERITUS

PAUL MUELLER

EXECUTIVE OFFICERS

MATTHEW T. DETELICH
President and CEO

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

DAVID T. MOORE
Vice President and Secretary

WHOLLY OWNED SUBSIDIARIES

MUELLER TRANSPORTATION, INC.

DIRECTORS

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

OFFICERS

AARON L. OWEN – President
DONALD E. GOLIK – Secretary
GERALD S. MILLER – Treasurer
RONALD W. GIELOW – Controller

MUELLER FIELD OPERATIONS, INC.

DIRECTORS

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

OFFICERS

WILLIAM F. ALLISON – President
DONALD E. GOLIK – Secretary
GERALD S. MILLER – Treasurer
RONALD W. GIELOW – Controller

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