2014

Annual Report

Energy Saving Solutions



MESTEK, INC.

COMPANIES

HVAC



Machinery



Architectural



CORPORATE OFFICERS

MESTEK BOARD OF DIRECTORS

Stewart B. Reed (E, N)	Chairman of the Board and Chief Executive Officer
J. Nicholas Filler (E, A)	Vice Chairman of the Board
Daniel P. Boyle (A, C)	President, Schwerin Boyle Capital Management, Inc.
Christopher Chivetta (N)	President, Hastings + Chivetta
Derek W. Glanvill (C, N)	Retired President and COO, McCarthy Holdings, Inc.
David M. Kelly (E, A, C)	Retired Chairman and CEO, Matthews International Corporation

E-Member Executive Committee; C-Member Compensation Committee; N-Member Nominating/Governance Committee; A-Member Audit Committee

MESTEK OFFICERS

Stewart B. Reed	Chairman of the Board and Chief Executive Officer
R. Bruce Dewey	President
Stephen M. Shea	Executive Vice President, Chief Financial Officer
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Timothy D. Markel	Executive Vice President, Sales & Marketing
William S. Rafferty	Executive Vice President
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Lawrence P. Desmarais	Vice President
Emerson W. Hobgood	Vice President
Richard E. Kessler	Vice President and Chief Procurement Officer
James B. Monahan	Vice President, Manufacturing
Charles L. Perry	Vice President, Sales, Sterling HVAC Products
Kurt S. Shea	Vice President, Engineering, Distributor Products
John W. Wilson	Vice President, Mestek Technologies
Steven F. Olearcek	Vice President, General Counsel, Secretary
Cindy T. Lacoste	Assistant Secretary

PRINCIPAL SUBSIDIARY OFFICERS

Darby D. Benroth	President, AWV
David L. Chipman	President, Anemostat, Inc.
George M. Kaler	President, Mestex
Darren E. Muchnicki	President, Formtek, Inc.
Richard L. Riggs	President, Boyertown Foundry Company
Robert B. Sloan	President, Linel
Kenneth D. Wahlers	President, Mestek Damper & Louver Group
Manny J. DaSilva	Vice President-Operations, RBI
Max Li	Vice President, Formtek Machinery (Beijing) Co., Ltd.
Scott L. Sloan	Vice President-Operations, Mestek Machinery, Inc.
Matthew T. Watson	Vice President & General Manager, Formtek Maine

STATE OF THE CORPORATION

Fellow Shareholders,

"To demonstrate that a thing is rational doesn't always prove that it is reasonable." Gustave LeBon. Consider M&A activity in a near zero interest rate environment where almost every cash acquisition immediately adds to earnings, an environment that has persisted for more than six years. Consider the immediate earnings boost provided by share repurchases paid for with non-earning cash, or with ultra-low cost debt. Perhaps rational for executives with stock options, especially the CEO, but not necessarily reasonable for long term shareholders. In more than a few instances, moral hazard could be an apt conclusion to draw.

Many manufacturing businesses are well managed by leaders competent in operations, yet not particularly experienced in M&A and capital allocation. At this time in the U.S. economic cycle, and given current ultra-low interest rates, this lack of experience is not detrimental for sellers because there is a robust market for quality companies. For buyers, however, the temptation to grow utilizing low cost money, often encouraged by investment bankers and business brokers, may lead to eventual costly losses for shareholders. An historical understanding of economics and financial markets is very helpful, perhaps essential if the future economic environment differs from Wall Street forecasts.

Your management does not believe in financial engineering or excessive leverage; we believe in building Mestek on a sound foundation. Owning manufacturing businesses entails competitive, operational, and legal risks; the probability of rewards must outweigh these risks in the decisions we make. In short, what we do must be both rational and reasonable. We are keen observers of the financial revelries of Wall Street; yet we will continue to watch from the sidelines. We wish the partygoers well, but prefer to stay sober. We prefer marathons to sprints.

Mestek has rational and reasonable alternatives to financial engineering. First organic growth. We can and should add highly productive people to our business given the opportunity, regardless of whether we have an immediate requirement for them. Given reasonable time, highly effective people make good things happen. We can and should fund every worthwhile new product development project, provided that we have the right people available for the task, and provided that we carefully select the most promising priorities. We can and should seek new markets, domestic and international, such as mission critical applications and Asian tunnel damper opportunities. We can and should broaden our architectural business, building upon our core competencies in skylights, specialty building panels, louvers, and building envelope energy conservation solutions.

Second, it is most important for Mestek to be the best home for quality businesses in our industries. We must be prepared to pay equitable prices to founders, entrepreneurs, and business owners for their companies when they choose to retire, desire a less stressful position in their company, or simply want to financially diversify to spread their risks. We have a long and proven record of respecting successful corporate cultures, employee interests, and continuity when we have acquired businesses. We share best practices while respecting the individuality of the company. Our history of buying businesses includes honoring agreements, no haggling after due diligence. Also, mighty oak trees can grow from acorns; almost no quality business is too small to be of interest to Mestek if reasonable synergy is present.

STATE OF THE CORPORATION

Total 2014 revenues increased by 4.1% to $345 million, representing some progress in the mature price sensitive industries we serve, consisting of a 6.2% improvement in HVAC and architectural sales, and a 4.2% decline in machinery sales. Machinery sales were negatively affected by a very low 2014 beginning backlog, due to the expiration of bonus tax depreciation at year-end 2013 for our customers. Entering 2015, HVAC and architectural backlogs were up 8.3% to $47.5 million YOY; and machinery backlogs improved by 76% to $27.9 million. Both backlogs remain healthy at this writing, amounts similar to the beginning 2015 backlogs.

The gross profit percentage remained approximately equal for 2014 and 2013 at 32.3%; however higher sales & marketing and engineering expenses prevented an improvement in operating profit from the increased revenues. Advertising costs increased by 13.6% to $3.1 million; and R&D costs increased by 7.3% to $6.0 million. I wish that we had more qualified people to enable us to ramp up R&D expenses by a greater amount; new product development is the lifeblood of most every manufacturing business. Higher sales commissions due to product mix also negatively affected operating profit, although we are delighted to see our manufacturers' representative partners prosper by selling our products. A more favorable mix of federal, state, and foreign income tax rates, unplanned and unexpected, resulted in 2014 after-tax earnings of $2.32 per share versus $2.22 for 2013.

Mestek is diversified, forty distinct product lines manufactured in fifteen separate locations, thirteen sited in the U.S., one in Canada, and one in China. The primary businesses are commercial boilers & water heaters, commercial & industrial & residential comfort hydronic heat distribution equipment, specialty steam coils, commercial & industrial comfort gas fired heating equipment, commercial & industrial comfort evaporative cooling equipment, commercial & industrial & residential specialty air conditioning equipment, commercial & industrial louvers and dampers, commercial & industrial air distribution equipment, monumental skylights and specialty building panels, automated machinery to produce commercial & industrial ductwork, and automated metal working machinery for roll forming & leveling & press feeding & cut to length applications. The sales and profits from each business and product line will vary from quarter to quarter and year to year, sometimes quite substantially. Some product lines are moderately seasonal, for example August through December are peak revenue months for heating equipment, key Mestek businesses. This is a mixed blessing; while it is highly unlikely that all product lines will be generating peak profits in any given year, the broad mix protects us from having too many eggs in one basket. Still, Mestek remains a cyclical company primarily dependent upon commercial, institutional, and industrial construction, and upon general industrial activity. We do however have substantial repair, replacement, and renovation sales; therefore we are somewhat less dependent on new construction compared to many other HVAC businesses. We believe that we are maintaining or improving market share in most, though not all, of our product lines. We regularly evaluate the competitive position of each product line, and allocate people and capital accordingly.

The balance sheet and cash flow remain strong. Higher inventories were mostly offset by higher deposits from our machinery customers. Despite the accounts receivable increase of $3.6 million, Mestek still generated $25.1 million from operating activities before capital expenditures. CAPEX of $6.4 million exceeded depreciation by $1.6 million due to capital costs associated with our new and much larger manufacturing facility in China, a business well-positioned to serve Asian and worldwide markets. We remain more enthusiastic than ever about the prospects for this venture. During 2014 Mestek generated $18.3 million of net additional cash available for future reinvestment.

STATE OF THE CORPORATION

Owning Mestek common stock is decidedly not for all investors. Your Directors and management take a very long term view of the business, fortunately a view shared by the major stockholders. We are not alone; for example Berkshire Hathaway shares an identical belief, and does not pay a cash dividend to its common shareholders. Investors desiring predictable dividends are better served elsewhere. We did pay a large dividend in 2012 before a major income tax increase; but this may not be repeated so long as we remain reasonably confident that we can reinvest retained earnings wisely, producing growing value for our owners. Opportunities sometimes come in bunches in unpredictable ways. By having sizable cash reserves and borrowing capacity, we are well-positioned to act quickly in succession when such opportunities arise.

In addition, we believe that paying cash dividends would be shortsighted given the present U.S. tax regime. Dividends cause an immediate 30% federal and state income tax bite for most shareholders, rather than retaining one hundred cent dollars to compound in the business. Many Mestek shareholders would want to reinvest their dividends, then worth only seventy cents after tax. Not paying dividends (immediately double-taxed corporately and personally) is somewhat similar to a tax deferred retirement account that compounds untaxed growth in value until it is ultimately utilized. I'm confident that Mestek Directors and senior management can find buyers who will pay equitable prices to Mestek shareholders wishing to cash out whenever they choose to do so. Your management remains reasonably confident that your investment will continue to grow in value at an acceptable compounded rate of return over time, although Mestek is likely to suffer lower profit years occasionally during business recessions. One final thought on the subject; Mestek is not unalterably opposed to dividends. Your Directors and management must always remain flexible to changing circumstances.

During the past fifty years Mestek has a mixed record of reinvesting your money, one grand slam home run (OmegaFlex), one disastrous strikeout with the bases loaded (CareCentric), at least fifteen successful acquisitions, one relatively good business where we were blindsided by very costly environmental clean-up issues, and a few fixer-uppers that we didn't fix up. Presumably, we have learned several things along the way, in particular paying close attention to the quality of the culture and capabilities of the people, and the long term viability of the business model. While painful lessons learned will not be soon forgotten, our enthusiasm for acquisitions is undiminished. It is a genuine delight to be a good home for quality companies with talented people.

This letter is another opportunity for me to express my heartfelt respect and gratitude to Mestek career employees, loyal customers, independent manufacturers' representative partners, architects and professional consulting engineers who trust and believe in our products, our valued suppliers, and our patient shareholder owners. Your confidence in Mestek inspires us to build a better company.

With kind regards,



Stewart B. Reed
Chairman & CEO

XCELON®
PERFORMANCE OVER ALL

Xcelon offers the efficiency of a custom air handler with a dedicated high efficiency boiler plant in a single factory-packaged unit. **Xcelon** demonstrates the Mestek philosophy of combined resources by integrating proven condensing boiler technologies with advanced air distribution methods. This efficient synergy of technologies enables Xcelon to produce operating efficiencies of up to 98%. A true game changer, the Xcelon has proven to be a superior solution for make-up air applications.



Compared to traditional make-up air unit heat exchangers, Xcelon substantially reduces the operating cost for make-up air units by up to 20%. Through the use of agency certified condensing boilers, the Xcelon qualifies for make-up air and boiler energy rebates, as well as valuable LEED qualifying credits.

STERLING
HVAC PRODUCTS



While the gas-fired unit heater industry has progressed to higher efficiency options, **Sterling HVAC's Nexus** condensing unit heaters have raised the bar even further. With unprecedented operating efficiencies up to 96%, the Nexus has changed the standard by which all other unit heaters are measured.

Premium performance and a sleek modern design deliver a solution above and beyond competitive offerings. The Nexus offers the widest range of sizes to meet any commercial building application with a continuing commitment to innovation and excellence.

ENERGY SAVING SOLUTIONS

From copper fin-tube and stainless steel to durable cast iron, the Mestek Boiler Group has developed proven industry-leading high efficiency boilers and commercial water heaters to fit all application types and sizes. Through the use of advanced heat exchanger designs and HeatNet, our integrated control platform, the Mestek Boiler Group manufactures the equipment necessary to satisfy today's stringent standards for heating system performance.

KN-Series by Advanced Thermal Hydronics are high efficiency condensing gas boilers built with the historically recognized reliability and strength of cast iron. As the first line of commercial boilers capable of realizing the full potential of cast iron, KN-Series boilers take the heat-retention and durability of cast iron and couple it with the energy savings of fully modulating, highly efficient condensing boiler performance for operating efficiencies up to 99%.

Capable of adapting to changing operating environments, KN-Series boilers deliver environmentally friendly solutions for a wide range of boiler applications, all the while maintaining low fuel utilization for significant reductions in energy consumption.





RBI's flagship Futera line of copper fin-tube boilers and water heaters brings to market the most complete line of high efficiency condensing models in the industry today. The Futera Fusion and Fusion XLF lead the way with efficiencies up to 99% at full input, whereas most competitive models test and rate their highest efficiencies at the lowest inputs. Fusion hybrid heat exchangers are engineered using a primary copper fin-tube exchanger with a full-flow stainless steel secondary heat exchanger for the most efficient and dependable heat transfer configuration available.

DesignLine
THERMAQUIET™



ThermaQuiet is designed to complement today's condensing applications providing superior outputs and performance at reduced supply water temperatures, maximizing equipment performance efficiencies. Whether using a high efficiency boiler, heat pump, or solar hot water supply product, ThermaQuiet's energy efficient design saves up to 35% when compared to traditional hydronic radiation products. All units are controlled through a simple to use integrated micro-processor control platform that continuously monitors room temperatures through temperature compensation, minimizing energy consumption while maximizing operating efficiencies.

HEATNET 3.0

HeatNet 3.0, developed by Mestek Technologies, is a sophisticated but easily configured integrated control platform. HeatNet 3.0 is standard on premium efficiency equipment manufactured by Mestek companies including boilers, water heaters, and make-up air equipment.

HeatNet 3.0 is an innovative energy management system that provides consistency and feedback through digital communications. By continuously monitoring system characteristics, HeatNet 3.0 modulates firing rates to maximize operating efficiencies.







HeatNet Online
Remote Monitoring and
Boiler Performance Control

HeatNet Online is the latest edition to the HeatNet control platform. HeatNet Online allows for real-time remote monitoring of boiler temperatures, limit circuit inputs, diagnostics, and overall system performance.

HeatNet Online is a web-based monitoring program that allows visual boiler feedback from anywhere through an easy to read dashboard. Boiler set points, service logs, and system issues are monitored from an office computer, tablet, or cell phone. HeatNet Online sends email text alerts for out of specification operation allowing for proactive responses to abnormal system conditions.



ENERGY SAVING SOLUTIONS

Applied Air



Active Power, a global provider of flywheel UPS backup systems for the mission critical industry, with offices in Texas, the UK, Germany, and China has partnered with Mestek's Dallas division, **Mestex**, to introduce a highly energy efficient evaporative cooling system for modular data centers. Active Power chose Mestex because of our proven expertise in designing and building advanced evaporative cooling systems and air handlers. Compared to a conventional refrigerant based system, the Mestex solution will reduce operating expense by almost 50% while maintaining uncompromised server uptime.

AZTEC



An international medical therapeutics company has embarked on a multiyear program to reduce its energy use, and dependence upon conventional refrigerants. In order to accomplish these goals, this leading corporation has turned to Mestex to provide a sophisticated indirect-direct evaporative cooling solution. The **Aztec ASC** products selected for this initiative have undergone a year of testing at one of the company's facilities, and have proven that it is possible to reduce energy use and eliminate refrigerants for many of its facilities worldwide.

DADANCO
A MESTEK COMPANY



Dadanco active chilled beams allow the central air handling system to circulate only the amount of air needed for ventilation and latent load purposes, while the active chilled beams provide the additional air movement and sensible cooling and heating required by inducing room air through the secondary water coil. The amount of primary air circulated by the central system is significantly reduced, often 75% less than conventional "all air" systems.

Active chilled beams transfer a large portion of the cooling and heating loads from the less efficient air distribution system (fans and ductwork) to the more efficient water distribution system (hydronic pumps and piping). The net result of this shift in loads is substantially reduced energy consumption and operating costs. Studies have shown that fan energy is the largest HVAC energy consumer in a typical commercial building in North America. With active chilled beam systems, the fan energy is largely reduced due to the relatively low quantity and low pressure of the primary air being circulated by the central air handling system. Also, the use of 56˚F chilled water for cooling and 110˚F heating water enables significant efficiency increases for both the chiller and boiler further adding to the substantial system reduction in energy consumption.

STERLING®
COMMERCIAL HYDRONIC PRODUCTS

Vulcan
RADIATOR



Sterling & Vulcan commercial finned tube radiation provides an energy efficient solution for both new construction and renovation projects. High efficiency condensing boilers and ground source heat pump hot water systems demand commercial finned tube radiation with the highest BTU outputs possible. For years the traditional hot water commercial radiation system operated at 180˚F and higher water temperatures. Newer energy efficient HVAC systems now operate in the 110-140˚F range. Sterling and Vulcan commercial finned tube radiation allows the engineer to recover the lost output at these lower operating temperatures while maintaining building comfort.

Sterling and Vulcan have long been considered the leaders in the commercial hydronic heating industry. With their vast array of enclosure and element combinations, along with their engineering expertise in designing custom enclosures, they are uniquely positioned to meet the demands of today's high efficient low temperature operating systems, as well as enabling creative architectural designs.

ENERGY SAVING SOLUTIONS

ARROW UNITED INDUSTRIES



Arrow United introduced the AFDTI-25LT in response to the need for a Thermal Break Damper with superior thermal resistance. This damper surpasses the competitors with improved thermal surface to surface resistance ratings, resulting in maximum energy savings.

The extruded aluminum frame contains two urethane plastic insulation thermal breaks to isolate the unit into three sections, increasing thermal resistance and maximizing insulation value. The aluminum airfoil blades contain a high-density polyurethane foam.

Each blade is thermally broken on the entering and leaving edges which separates the front and back skin, preventing temperature transfer when the damper is in the fully closed position. The polycarbonate jamb seals and extruded silicone blade seals ensure that the AFDTI-25LT provides many years of ultra-low leakage at both high operating pressures and wide temperature ranges.

LINEL

Linel was selected to fabricate and install Sage electrochromic glass skylights on the DeHority Hall building at Ball State University Muncie, Indiana campus. This energy efficient skylight solution (variable light transmittance glass) reduces light transmittance on bright sunny days, and allows more light into the space on cloudy days. The coated glass, when activated with low voltage DC current, darkens as it absorbs light and heat, and subsequently re-radiates both from the glass surface to the exterior, much as low emissivity also keeps out unwanted heat.

Using a controller, this electrical switching of tints can be integrated into the building management system to augment the building heating and cooling systems. In the fully tinted condition, 91% of the solar heat gain is blocked. Linel has worked with Sage introducing and utilizing this technology for energy efficient skylight solutions.





LINEL



Linel was approached by Thomas Phifer and Partners, Architects, to participate in the expansion of the Corning Museum of Glass in Corning, New York, a leading edge design assist project with Corning Glass and Gilbane Construction.

Linel developed the roof skylight details, fabricated and installed the skylight which was the entire roof on the expansion. Linel also assisted in the design of the connections and details for installing the concrete beams which act as sunshades while letting light into the space below, again demonstrating Linel's industry-leading expertise fabricating and installing monumental skylights.

FINANCIALS

McGladrey

Independent Auditor's Report

To the Board of Directors and Shareholders
Mestek, Inc.
Westfield, Massachusetts

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Mestek, Inc. which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mestek, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Boston, Massachusetts
April 27, 2015

Member of the RSM International network of independent accounting, tax and consulting firms.

SELECTED FINANCIAL DATA

Selected financial data for the Company for each of the last five years is shown in the following table, which is derived from and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this report. Selected financial data reflecting the operations of acquired businesses is shown only for periods following the related acquisition.

SUMMARY OF FINANCIAL POSITION as of December 31,

(Dollars in thousands except per share data)

	2014	2013	2012	2011	2010
Total Assets	$ 238,110	$ 213,717	$ 197,153	$ 200,513	$ 195,980
Working Capital	98,673	77,091	59,058	70,518	49,469
Total Debt	10,338	10,535	12,057	11,833	13,067
Mestek Inc. Shareholders' Equity	152,669	136,544	119,095	129,429	122,709
Shareholders' Equity Per Common Share (1)	$ 20.38	$ 18.23	$ 15.90	$ 17.36	$16.24

SUMMARY OF OPERATIONS for the years ended December 31,

(Dollars in thousands except per share data)

	2014	2013	2012	2011	2010
Revenues from Continuing Operations	$ 345,464	$ 331,851	$ 299,347	$ 304,624	$ 280,863
Net Income from Continuing Operations attributable to Mestek	$ 17,370	$ 16,593	$ 12,478	$ 12,755	$ 8,642
Net Loss from Discontinued Operations	$ ---	$ ---	$ ---	$ (4,075)	$ (3,197)
Net Income	$ 17,370	$ 16,593	$ 12,478	$ 8,680	$ 5,445
Earnings per Common Share:					
Basic and Diluted Earnings per Common Share:					
Net Income from Continuing Operations	$ 2.32	$ 2.22	$ 1.67	$ 1.69	$ 1.09
Net Loss from Discontinued Operations	$ ---	$ ---	$ ---	$ (0.54)	$ (0.40)
Net Income	$ 2.32	$ 2.22	$ 1.67	$ 1.15	$ 0.69

(1) Equity per common share amounts are computed using the common shares outstanding as of December 31, 2014, 2013, 2012, 2011, and 2010.

FINANCIALS

MESTEK, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2014 and 2013

	2014	2013
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 54,408	$ 36,508
Accounts Receivable - less allowances of $4,785 and $4,689, respectively	49,229	45,681
Inventories – net	46,767	40,008
Deferred Tax Assets	4,051	3,264
Other Current Assets	8,628	7,689
Total Current Assets	163,083	133,150
Property and Equipment – net	43,004	41,709
Property Held for Sale	2,327	2,707
Deferred Tax Assets	722	6,971
Other Assets – net	3,920	3,947
Goodwill	25,054	25,233
Total Assets	$ 238,110	$ 213,717
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current Portion of Long-Term Debt	$ 175	$ 175
Accounts Payable	12,776	12,335
Accrued Payroll and Related Expenses	17,171	15,583
Customer Deposits	14,796	8,472
Current Portion of Environmental Reserves	488	420
Warranty Reserve	3,458	3,299
Other Accrued Liabilities	15,546	15,775
Current Liabilities	64,410	56,059
Environmental Reserves – long term	7,308	8,046
Long-Term Debt	10,163	10,360
Other Liabilities	1,821	1,042
Total Liabilities	83,702	75,507
Commitments and Contingent Liabilities		
Shareholders' Equity:		
Controlling Interest:		
Common Stock, no par, stated value $0.05 per share, 20,000,000 shares authorized at December 31, 2014 and 2013; 8,368,726 shares issued at December 31, 2014 and 2013	417	417
Paid in Capital	5,054	4,924
Retained Earnings	158,629	141,259
Treasury Shares, at cost (878,010 common shares at December 31, 2014 and 2013, respectively)	(11,293)	(11,293)
Accumulated Other Comprehensive Income	(138)	1,237
Total Mestek, Inc. Shareholders' Equity	152,669	136,544
Non-controlling Interest	1,739	1,666
Total Shareholders' Equity	154,408	138,210
Total Liabilities and Shareholders' Equity	$ 238,110	$ 213,717

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2014 and 2013

	2014	2013
	(Dollars and Shares in thousands, except earnings per common share)	
Net Sales	$ 345,464	$ 331,851
Cost of Goods Sold	233,669	224,740
Gross Profit	111,795	107,111
Selling Expense	43,360	38,791
General and Administrative Expense	26,598	27,526
Engineering Expense	12,632	11,143
Loss on Impairment or Sale of Property and Equipment	36	1,534
Plant Shutdown Expense and Other Charges	1,255	321
Operating Profit	27,914	27,796
Interest Income (Expense) – net	(80)	(43)
Other Income (Expense) – net	(6)	269
Income from Operations Before Income Taxes	27,828	28,022
Provision for Income Taxes	10,385	11,393
Net Income	17,443	16,629
Less: Net Income – Non-controlling Interest	73	36
Net Income attributable to Mestek, Inc.	$ 17,370	$ 16,593
Basic and Diluted Earnings per Common Share	$ 2.32	$ 2.22
Basic and Diluted Weighted Average Shares Outstanding	7,491	7,491

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2014 and 2013

	2014	2013
	(Dollars and Shares in thousands, except Earnings per common share)	
Net Income	$ 17,443	$ 16,629
Other Comprehensive Income, net of tax		
Foreign Currency Translation Adjustments	(1,019)	(289)
Defined Benefit Pension Plans:		
Net Gain (Loss) Arising During Period	(741)	1,262
Amortization of Net Loss	148	429
Defined Benefit Pension Plans Cost	(593)	1,691
Other Comprehensive Income (Loss) before tax	(1,612)	1,402
Income Tax Benefit (Expense) Related To Components of Other Comprehensive Income (Loss)	237	(676)
Other Comprehensive Income (Loss)	(1,375)	726
Comprehensive Income	16,068	17,355
Less: comprehensive Income—Non-controlling Interest	(73)	(36)
Comprehensive Income Attributable to Mestek, Inc.	$ 15,995	$ 17,319

See Accompanying Notes to the Consolidated Financial Statements.

MESTEK, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2014 and 2013

(Dollars in thousands)	Common Stock	Paid In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total
Balance – December 31, 2012	$ 417	$ 4,794	$ 124,666	$ (11,293)	$ 511	$ 1,028	$ 120,123
Net Income			16,593			36	16,629
Cumulative Translation Adjustment					(289)		(289)
Changes in Minimum Liability – Defined Benefit Plan – Net of Tax					1,015		1,015
Sale of Non-Controlling Interest in Subsidiary						602	602
Stock Based Compensation		130					130
Balance – December 31, 2013	417	4,924	141,259	(11,293)	1,237	1,666	138,210
Net Income			17,370			73	17,443
Cumulative Translation Adjustment					(1,019)		(1,019)
Changes in Minimum Liability – Defined Benefit Plan – Net of Tax					(356)		(356)
Stock Based Compensation		130					130
Balance – December 31, 2014	$ 417	$ 5,054	$ 158,629	$ (11,293)	$ (138)	$ 1,739	$ 154,408

See Accompanying Notes to the Consolidated Financial Statements

MESTEK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014 and 2013

	2014	2013
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net Income	$ 17,443	$ 16,629
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	4,847	4,798
Unrealized Loss (Gain) on Trading Securities	1,074	(104)
Provision for Deferred Taxes	5,080	4,336
Stock Compensation Expense	130	130
Provision for Losses on Accounts Receivable, net of write-offs and recoveries	142	359
Loss on Sale of Property and Equipment	36	1,534
Change in Assets and Liabilities:		
Accounts Receivable	(3,620)	3,520
Inventory	(6,736)	5,923
Accounts Payable	826	(2,294)
Customer Deposits	6,378	(2,870)
Environmental Reserves	(669)	(616)
Other Assets and Liabilities, net	(1,059)	5,970
Net Cash Provided by Operating Activities	23,872	37,315
Cash Flows from Investing Activities:		
Capital Expenditures	(6,594)	(7,402)
Acquisitions	---	(550)
Proceeds from Sale of Fixed Assets	782	---
Net Cash Used in Investing Activities	(5,812)	(7,952)
Cash Flows from Financing Activities:		
Net Borrowings (Repayments) Under Revolving Credit Agreements	---	(1,259)
Principal Payments Under Long-Term Debt Obligations	(197)	(263)
Sale of non-controlling interest in subsidiary	---	602
Net Cash Used in Financing Activities	(197)	(920)
Net Increase in Cash and Cash Equivalents	17,863	28,443
Exchange Rate Effect on Cash and Cash Equivalents	37	209
Cash and Cash Equivalents - Beginning of Period	36,508	7,856
Cash and Cash Equivalents - End of Period	$ 54,408	$ 36,508
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Summary of Entities Acquired in Purchase Business Combinations		
Fair Value of Net Assets Acquired and Goodwill	$ -	$ 764
Cash Paid, Net Of Cash Acquired	-	550
Holdbacks and Contingent Consideration	-	214
Total Consideration Paid	$ -	$ 764

See Accompanying Notes to the Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mestek Inc. and its subsidiaries (the "Company") operate in two manufacturing business segments: Heating, Ventilating and Air conditioning equipment (HVAC) and metal forming equipment. The Company manufactures its HVAC equipment and metal forming equipment at 13 factory locations and sells through established distributor, dealer and manufacturer's representative channels, primarily in the United States and Canada.

Basis of Presentation

The Consolidated Financial Statements include the accounts of Mestek and its wholly owned subsidiaries and certain partially owned entities over which it has a controlling financial interest. All material inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates and assumptions relate to revenue recognition, accounts receivable valuations, inventory valuations, goodwill valuation, intangible asset valuations, warranty costs, product liability costs, environmental reserves, workers compensation claims reserves, health care claims reserves, stock compensation, pension accrual, accounting for income taxes and the realization of deferred tax assets. Actual amounts could differ significantly from these estimates.

Revenue Recognition

The Company's revenue recognition activities relate almost entirely to the manufacture and sale of heating, ventilating and air conditioning ("HVAC") products and equipment and metal forming equipment. Under generally accepted accounting principles, revenues are considered to have been earned when the Company has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. With respect to sales of the Company's HVAC or metal forming equipment, the following criteria represent preconditions to the recognition of revenue:

* persuasive evidence of an arrangement must exist;
* delivery has occurred or services rendered;
* the sales price to the customer is fixed or determinable; and
* collection is reasonably assured.

Revenues for certain long-term, custom-built engineering projects are recognized on a percentage of completion basis. The lengths of these contracts can exceed twelve months from order to delivery and acceptance. Percentages-of-completion are determined by relating the actual costs of work performed to date for each contract to its estimated final costs. Revisions in costs and profit estimates are reflected in the period in which the facts causing the revision become known. For all fixed price and long-term contracts, if a loss is anticipated on the contract, a provision is made in the period in which such losses are determined. Overbillings are included in customer deposits in the accompanying consolidated balance sheets.

In some cases, the Company's arrangements may contain multiple elements. In those situations, the arrangements are analyzed to determine whether the deliverables can be divided into separate units of accounting or treated as a single unit of accounting. For those deliverables that qualify as separate units of accounting, the Company must assign value based on each deliverable's vendor-specific objective evidence ("VSOE") of fair value, if available, third-party evidence ("TPE") of its value if VSOE is not available, or estimated selling price ("ESP") if neither VSOE or TPE is available. Arrangement consideration is then allocated to all deliverables using the relative selling price method. If management determines that the deliverables can be divided into separate units of accounting, the consideration received is allocated at inception of the arrangement to all deliverables based on their relative selling price.

1. SIGNIFICANT ACCOUNTING POLICIES…CONTINUED

Revenue Recognition…Continued

Sales include shipping and handling costs billed to customers, and the related costs are included in the cost of sales. State sales taxes collected from customers are recorded in the accrued liabilities until paid. Accordingly sales taxes have no effect on revenues or operating expenses.

Short-term Investment and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents include investments in an institutional money market fund, which invests in U.S. Treasury bills, notes and bonds, and/or repurchase agreements, backed by such obligations.

Additionally, the Company maintains a brokerage account for hedging and speculative commodities purchases which is included in cash in the accompanying consolidated balance sheets. These investments are classified as trading and are recorded at their fair values using the specific identification method and classified as level 1 within the fair value hierarchy. The unrealized holding gains or losses on any investments are included in Operating Profit in the accompanying consolidated statements of income.

Accounts and Notes Receivable

Accounts and notes receivable are reduced by an allowance for amounts that may become uncollectible in the future. The accounts receivable allowance for uncollectible amounts is based primarily on management's analyses of accounts in the receivable portfolio and historical write-off experience. Recoveries of receivables previously written off are recorded when cash is received.

Inventories

Inventories are valued at the lower of cost or market. Cost of inventories is principally determined by the last-in, first-out ("LIFO") method. Approximately 76% and 74% of inventory cost were determined using the LIFO method for the years ended December 31, 2014 and 2013, respectively, with the remaining inventories determined using the first-in, first-out method.

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are computed using the straight-line and accelerated methods over the estimated useful lives of the assets or, for leasehold improvements, the life of the lease, if shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to operations as incurred; significant improvements are capitalized.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of a business acquired in a business combination over the fair value of the net assets acquired and liabilities assumed. The Company accounts for goodwill in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-20 "Goodwill and Other Intangible Assets" ("ASC 350-20"). Under ASC 350-20, the carrying value of goodwill is evaluated for impairment on at least an annual basis. In 2012, the Company early adopted Accounting Standards Update (ASU) 2011-08. Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which allowed the Company to assess certain qualitative factors in evaluating the recoverability of its goodwill, prior to performing a two-step impairment analysis.

The Company performed an annual impairment assessment as of December 31, 2014 and 2013 for its' HVAC and Metal Forming reporting units. There was no impairment in either reporting unit as of December 31, 2014 or December 31, 2013.

1. SIGNIFICANT ACCOUNTING POLICIES...CONTINUED

Goodwill and Other Intangible Assets...Continued

Goodwill and Intangible Assets consisted of the following at:

	December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Goodwill – net of prior amortization	$ 25,054	$ 25,233
Patents, Rights and Trademarks	$ 4,778	$ 4,711
Accumulated Amortization, Patents, Rights and Trademarks	(3,751)	(3,601)
Patents, Rights and Trademarks – net (included in other assets)	$ 1,027	$ 1,110

The change in the carrying amount of goodwill is due to foreign currency translation of approximately $178,000. Amortization expense relating to the intangible assets for the years ending December 31, 2014 and 2013 was $150,000 and $154,000, respectively.

Impairment of Long-Lived Assets.

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Triggering events that could indicate the carrying value of long-lived assets is not fully recoverable may include the loss of significant customers, adverse changes to volumes and/or profitability in specific markets and changes in the Company's business strategy that result in a significant reduction in cash flows generated in a specific operation. Management also performs an annual assessment of the useful lives of the contract rights and accelerates amortization, if necessary. If it is determined that the carrying value of the assets is not recoverable, the Company would write down the long-lived assets by the amount by which the carrying value exceeds fair value. The Company determined there was no impairment of long-lived assets at December 31, 2014 or December 31, 2013.

Advertising Expense

Advertising costs are charged to operations as incurred. Such charges aggregated $3,130,000 and $2,755,000, for the years ended December 31, 2014 and 2013, respectively, and are included in Selling Expense in the accompanying consolidated statements of income.

Research and Development Expense

Research and development expenses are charged to operations as incurred. Such charges aggregated $5,990,000 and $5,580,000, for the years ended December 31 2014 and 2013, respectively, and are included in Engineering Expense in the accompanying consolidated statements of income.

Treasury Shares

Common stock held in the Company's treasury has been recorded at cost. If treasury stock is re-issued, proceeds in excess of cost are credited to paid-in-capital.

1. SIGNIFICANT ACCOUNTING POLICIES...CONTINUED

Earnings per Common Share

Basic earnings per share have been computed using the weighted average number of common shares outstanding. Common stock options of the Company, as more fully described in Note 11, were considered in the computation of diluted earnings per share, except when such effect would be anti-dilutive.

Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing on the balance sheet dates. The Statement of Income is translated at weighted-average exchange rates. Adjustments resulting from the translation of financial statements are excluded from the determination of income and are recorded in Accumulated Other Comprehensive Income as a separate component of Shareholders' Equity. Transaction gains and losses are included in other expense and were not material in either 2014 or 2013.

Other Comprehensive Income (Loss)

In accordance with accounting standards, the Company is required to report in its financial statements, in addition to its net income, comprehensive income, which includes all changes in equity during a period from non-owner sources including foreign currency items and pension plan adjustments.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Fair Value of Financial Instruments, Concentration of Credit and other Risk and Significant Customers

The carrying values of cash, cash equivalents, investments, accounts receivable, accounts payable, accrued expenses and short term bank debt approximate fair market value due to the short-term nature of these financial instruments. The carrying value of long-term debt approximates fair market value, which is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities. Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash, cash equivalents, and accounts receivable.

The Company has no significant off-balance-sheet or concentration of credit risk exposure such as foreign exchange contracts or option contracts. The Company maintains its cash and cash equivalents with established financial institutions. Certain cash in foreign institutions may be subject to temporary withdrawal restrictions. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom the Company makes substantial sales. To reduce its credit risk, the Company routinely assesses the financial strength of its customers. The Company maintains an allowance for potential credit losses but historically has not experienced any significant losses related to individual customers or groups of customers beyond what is provided for in the allowance. No individual customer accounted for more than 10% of revenues in 2014 or 2013. No individual customer accounted for more than 10% of the Company's accounts receivable at December 31, 2014 or 2013.

Labor Force

Certain of the company's personnel are represented by labor unions. The Company has contracts with each union which are generally renewed for 3 to 4 year terms. The concentration of employees under union contracts represents approximately 38% and 38% of the Company's workforce as of December 31, 2014 and 2013, respectively.

1. SIGNIFICANT ACCOUNTING POLICIES...CONTINUED

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718, "Compensation – Stock Compensation". FASB ASC 718 requires all share-based payments to employees, including grants of employee stock options and modifications to existing stock options to be recognized in the statement of income based on their fair values on the grant or modification date.

Under the fair-value method, stock-based compensation associated with stock awards is determined based on the estimated fair value of the award itself, measured using either current market data or an established option-pricing model. The Company utilizes the Black-Scholes option pricing model to determine the fair value of options granted and has elected the accrual method for recognizing compensation costs.

The determination of the fair value of stock-based payment awards utilizing the Black-Scholes model is affected by the stock price and a number of assumptions, including expected volatility, expected term, risk-free interest rate and expected dividend yield. The Company does not have a history of market prices of the common stock as it is not a public company, and as such volatility is estimated using historical volatilities of similar public entities. The expected term of the awards is estimated based on the simplified method. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on a history and expectation of paying no dividends (excluding special dividends). Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures represent only the unvested portion of a surrendered option and the Company has estimated a 0% forfeiture rate as of December 31, 2014.

No options were granted for the years ending December 31, 2014 or 2013.

For the year ended December 31, 2014 and 2013, the Company recorded stock-based compensation expense of $130,000 in connection with share based payment awards granted in earlier years. As of December 31, 2014, there was $206,000 of unrecognized compensation expense related to non-vested stock awards that is expected to be recognized through 2016.

Defined Benefit Plans

The Company accounts for its terminated defined benefit pension plans in accordance with FASB ASC 715, "Compensation – Retirement Benefits," which requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "Benefit Plans") to recognize the funded status of their Benefit Plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end, and provide additional disclosures (see Note 8).

Reclassification

Reclassifications have been made to previously-issued financial statements to conform to the current year presentation. In 2014, the Company reclassified its investment account of approximately $400,000 from other current assets to cash and cash equivalent.

Recently Adopted Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, *Income Taxes ((Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. ASU 2013-11 is effective prospectively for fiscal years and interim periods within those years, beginning after December 15, 2014. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES...CONTINUED

Recently Adopted Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation and Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.* ASU 2011-12 defers the presentation requirement for reclassification adjustments. The Company adopted this guidance in 2014 and it did not have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contract with Customers (Topic 606)* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for the annual reporting periods beginning after December 15, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

2. INVENTORIES

Inventories consisted of the following at December 31:

	2014	2013
	(Dollars in thousands)	
Finished Goods	$ 10,435	$ 10,332
Work-in-progress	19,714	16,814
Raw materials	29,450	25,810
	59,599	52,956
Less reserve for LIFO method of valuation	(12,832)	(12,948)
	$ 46,767	$ 40,008

The Company uses the last-in first-out (LIFO) method of valuing substantial portions of its inventory. Approximately $116,000 and $765,000 of income was recorded in the periods ended December 31, 2014 and 2013, respectively, as a result of using the LIFO method rather than FIFO.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2014	2013	Depreciation and Amortization Est. Useful Lives
	(Dollars in thousands)		
Land	$ 3,227	$ 3,460	
Buildings	33,431	31,497	**19-39 Years**
Leasehold Improvements	8,041	7,991	**15-39 Years**
Equipment	108,331	105,419	**3-10 Years**
	153,030	148,367	
Accumulated Depreciation	(110,026)	(106,658)	
	$ 43,004	$ 41,709	

3. PROPERTY AND EQUIPMENT…CONTINUED

The above amounts include $3,823,000 and $3,509,000 at December 31, 2014 and 2013, respectively, in assets that had not yet been placed in service by the Company. No depreciation was recorded in the related periods for these assets. Assets classified as "Property Held for Sale" are excluded from the amounts listed above.

Depreciation and amortization expense was $4,778,000 and $4,798,000 for the years ended December 31, 2014 and 2013, respectively.

4. INVESTMENTS, MERGER AND DIVESTITURES

Rotodie, Inc.

On July 30, 2013, the Company acquired certain assets of Gem Equity Corp (dba Rotodie, Inc.) for a total consideration of approximately $764,000 including cash consideration of $550,000 and "earn-out obligations" estimated at $214,000. The purchase price has been allocated to the net assets acquired at fair values at the date of acquisition, with the residual amount allocated to goodwill. The Company recorded goodwill of $547,000 in connection with the transaction as detailed below, which is deductible for income tax purposes. Rotodie is a manufacturer of hydraulic sheet metal bending equipment complementary to the Company's roll-forming products sold under the Formtek name. The purchase price allocated to the net assets acquired was as follows:

Accounts Receivable	$ 49,000
Inventory	200,000
Machinery & Equipment	25,000
Goodwill	547,000
Current Liabilities	(57,000)
Net Assets Acquired	$ 764,000

Hebei Sterling Technology Co. Ltd (HST)

On June 28, 2013, Mestek entered into a joint venture with Beijing Zhong Ke Peng Technology Co., Ltd (Beijing Zhong) and acquired 85% of the registered capital of the newly established joint venture entity, Hebei Sterling Technology Co. Ltd. (HST), for $3,400,000. Beijing Zhong obtained the remaining 15% of the registered capital for $600,000. The two parties will share in HST's profits, and bear the losses and risks arising from their investments in the joint venture, in proportion to their respective contributions. Mestek has fully consolidated the entity in accordance with ASC 810, *Consolidation*, as Mestek has the power to direct the activities in a way that most significantly impacts HST's economic performance, and has recorded Beijing Zhong's ownership investment in non-controlling interest in the consolidated statements of shareholders' equity. In December 2014, HST acquired a small parcel of land adjacent to its property and certain assets from Ru Feng for $485,000.

5. DEBT

Short-term Debt

Short-term debt consisted of the following at December 31:

	2014	2013
	(Dollars in thousands)	
Revolving Loan Agreement	$ -	$ -
Current Portion of Long-term Debt	175	175
Total Short Term Debt	$ 175	$ 175

5. DEBT…CONTINUED

Short-term Debt…Continued

Revolving Loan Agreement – On December 30, 2014, the Company entered into a five year, $60,000,000, committed, secured, multi-bank revolving loan and letter of credit facility (the "Facility"), led by Santander N.A. Borrowings under the Facility bear interest, at the Company's election, at a floating rate based on the lenders' prime or base rate or, for short term borrowings, at a rate based upon the daily LIBOR rate. There were no borrowings outstanding under the Facility as of December 31, 2014. The Facility contains affirmative and negative covenants typical of such financing transactions, and specific financial covenants which require the Company to maintain a minimum cash flow coverage ratio and a maximum cash flow leverage ratio. As of December 31, 2014, the Company was in compliance with all of the financial covenants required under the Facility. Revolving borrowings under the Facility are due and payable in full on the maturity date of the Facility, which is December 30, 2019. The credit agreement relating to the Facility also contains restrictions regarding the creation of indebtedness, the occurrence of mergers or consolidations, the sale of subsidiary stock and the payment of dividends. The company terminated its previously existing credit facility with Bank of America on December 19, 2014.

Long-term Debt

Long-term debt consisted of the following at December 31:

	2014	2013
	(Dollars in thousands)	
Industrial Development Bond – MO	$ 2,600	$ 2,797
Notes Payable-Other	7,738	7,738
	10,338	10,535
Less Current Maturities	(175)	(175)
Long Term Debt	$ 10,163	$ 10,360

Industrial Development Bond - MO – On June 17, 2005, the Company acquired an 80,000 square foot manufacturing facility in Bridgeton, Missouri, for $2,940,000, which was used to consolidate existing Formtek Metal Processing business units. On July 19, 2005, the Company refinanced this transaction as part of a 25-year-tax-exempt Industrial Development Bond totaling $4,430,000. The note bears interest at a variable rate that considers prevailing market conditions and is set weekly by the remarketing agent, Banc of America Securities LLC. At no time may the interest rate exceed the maximum annual rate of 12.00%. Interest is payable monthly with a minimum optional redemption of principal due on July 1 of each year until maturity at July 1, 2030. The effective rate of interest paid in 2014, including letter of credit costs, was 1.31%. The minimum optional redemption amount in each of the second five years is $175,000. The note is secured by a letter of credit with Bank of America, N.A.

Notes Payable – Others – The Company is indebted under a series of non-interest bearing demand notes to an investor group. The balance outstanding under the notes as of both December 31, 2014 and December 31, 2013 was $7,738,000. The company does not expect these obligations to mature in 2015, and therefore has classified them as long-term debt.

5. DEBT…CONTINUED

Long-term Debt…Continued

Maturities of debt in each of the next five years and thereafter are as follows in thousands:

	Total Debt
2015	$ 175
2016	180
2017	180
2018	180
2019	180
Thereafter	9,443
Total Debt Maturities:	$ 10,338

The fair value of the Company's long-term debt is estimated based on the current interest rates offered to the Company for debt of the same remaining maturities. Management believes the carrying value of debt and the contractual values of the outstanding letters of credit (see Note 9) approximate their fair values as of December 31, 2014.

Cash paid for interest was $344,000 and $344,000, during the years ended December 31, 2014 and 2013, respectively. Interest expense totaled $284,000 and $351,000 for the years ended December 31, 2014 and 2013, respectively.

6. INCOME TAXES

The provision for income taxes consisted of the following:

	2014	2013
	(Dollars in thousands)	
Federal Income Tax:		
Current	$ 1,811	$ 3,452
Deferred	5,830	5,351
State Income Tax:		
Current	1,519	2,152
Deferred	20	68
Foreign Income Tax:		
Current	1,195	370
Deferred	10	---
Provision for Income Taxes	$ 10,385	$ 11,393

Income before income taxes included foreign income of $4,945,000 and $5,416,000 in 2014 and 2013, respectively.

6. INCOME TAXES...CONTINUED

Total income tax expense differed from statutory income tax expense computed by applying the U.S. federal income tax rate of 35% to earnings before income tax, as follows:

	2014	2013
	(Dollars in thousands)	
Computed "Expected" Income Tax Expense	$ 9,802	$ 9,807
Permanent Differences	228	1,072
State Income Tax, Net Of Federal Tax Expense	1,001	1,134
Foreign Source Income	(526)	(620)
Other	(120)	-
Income Tax Expense	$ 10,385	$ 11,393

Deferred income tax expense results from temporary differences in the recognition of income and expense for income tax and financial reporting purposes. The components of and changes in the net deferred tax assets (liabilities) which give rise to this deferred income tax expense for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(Dollars in thousands)	
Current Deferred Tax Assets:		
Product Liability Reserve	$ 1,218	$ 1,177
Compensated Absences	779	550
Inventory Valuation	412	321
Workers Compensation Reserve	236	198
Accounts Receivable Valuation	1,814	1,638
Other	648	433
Total Current Deferred Tax Assets	5,107	4,317
Current Deferred Tax Liabilities:		
Prepaid Expenses	(1,298)	(1,049)
Total Current Deferred Tax Liabilities	(1,298)	(1,049)
Net Current Deferred Tax Assets	3,809	3,268
Noncurrent Deferred Tax Assets:		
Remediation Reserve	2,626	2,890
Net Operating Loss Carry Forward	2,295	7,882
Impairment of Goodwill and Long Lived Assets	427	427
Deferred Benefits Plan	1,666	1,314
Other	33	37
Total Noncurrent Deferred Tax Assets	7,047	12,550
Noncurrent Deferred Tax Liabilities:		
Depreciation and Amortization	(6,083)	(5,583)
Total Noncurrent Deferred Tax Liabilities	(6,083)	(5,583)
Net Noncurrent Deferred Tax Liabilities	964	6,967
Net Deferred Tax Asset	$ 4,773	$ 10,235

6. INCOME TAXES…CONTINUED

At December 31, 2014, the Company has net operating loss carry forwards of approximately $6,560,000 which are available to reduce future income taxes payable, subject to applicable Federal rules and limitations. These losses are scheduled to expire from 2015 through 2024.

Management believes it is more likely than not that the Company will have sufficient taxable income when these temporary differences are reversed and that the deferred tax asset will be realized and accordingly no valuation allowance is deemed necessary.

The Company paid a total of $5,647,000 and $3,753,000 in income taxes to federal, state, and foreign tax jurisdictions for the years ended 2014 and 2013, respectively.

The Company accounts for uncertainty in income taxes under the provisions of ASC 740-10, "Income Taxes". These provisions provide guidance on the recognition, de-recognition and measurement of potential tax benefits associated with tax positions. The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. The Company recognizes interest and penalties related to uncertain tax provisions, if any, as a component of the provision for income taxes in the accompanying consolidated statements of income. At December 31, 2014 and 2013, the potential interest and penalties attributable to any uncertainties were *de minimus*.

The Company and its subsidiaries file income tax returns in the United States and various state and local jurisdictions. In the normal course of business, the Company is subject to audit by U.S. federal, state or local tax authorities in its major jurisdictions for years after 2010.

The Company has not recorded deferred income taxes on the undistributed earnings of its international subsidiaries because it is the Company's intent to reinvest such earnings indefinitely. The international subsidiaries have an accumulated deficit; therefore there are no accumulated earnings available for distribution. Determination of the amount of unrecognized deferred taxes related to this investment is not practicable.

7. LEASES AND RELATED PARTY TRANSACTIONS

Related Party Leases

The Company leases various manufacturing facilities and equipment from companies owned by certain officers and directors of the Company, either directly or indirectly, or through affiliates. The leases generally provide that the Company will bear the cost of property taxes and insurance.

Details of the principal operating leases with related parties as of December 31, 2014, including the effect of renewals and amendments executed subsequent to December 31, 2014, are as follows:

	Date of Lease	Term	Basic Annual Rent	Minimum Future Rentals
			(Dollars in thousands)	
Sterling Realty Trust:				
Land and Building-Main	07/01/14	5 years	$ 437	$ 2,883
Land and Building Beacon Morris	07/01/14	5 years	$ 141	$ 932
Land and Building-South Complex	07/01/14	5 years	$ 475	$ 3,135
Land and Building Torrington	07/01/14	5 years	$ 326	$ 1,608
Rudbeek Realty Corp.:				
Farmville Location	04/01/14	5 years	$ 724	$ 3,778

7. LEASES AND RELATED PARTY TRANSACTIONS…CONTINUED

All Leases

Rent expense for operating leases, including those with related parties, was $3,386,000 and $2,996,000, for the years ended December 31, 2014, and 2013, respectively. Rents to related parties, including the aforementioned leases, were approximately $2,159,000 and $1,430,000 for the years ended December 31, 2014 and 2013, respectively.

Future minimum lease payments under all non-cancelable leases as of December 31, 2014 are as follows:

Years Ending December 31,	Operating Leases (Dollars in thousands)
2015	$ 4,008
2016	4,071
2017	3,914
2018	3,538
2019	1,761
Thereafter	397
Total Minimum Lease payments	$ 17,689

Other Related Party Transactions

On October 13, 2006, the Company loaned $611,000 to Stephen Shea, its Chief Financial Officer, in connection with his exercise in 2005, of incentive stock options. The loan bore interest at 4.5%, originally matured on October 13, 2009, and is secured by a pledge of 40,000 common shares of the Company's Stock.

On October 13, 2009, the company amended and restated the $611,000 loan to extend the maturity to October 13, 2010, and added additional security in the form of a pledge of the proceeds from a term life insurance policy in the name of Stephen Shea to the company by Mr. Shea and his named beneficiary. The loan automatically renews for a period of one year at each anniversary date. The company does not expect payment to be made in 2015 and therefore has classified this loan as a long-term asset.

8. EMPLOYEE BENEFIT PLANS

The Company maintains a qualified non-contributory profit-sharing plan ("Profit-Sharing Plan") covering all eligible employees. Contributions to the Profit-Sharing Plan were approximately $1,401,000 and $997,000 for the years ended December 31, 2014 and 2013, respectively. Contributions to the Profit Sharing Plan are defined as a minimum of $600,000 plus 5% of the excess operating profits of the Company exceeding $12,000,000, subject to the maximum allowed under the Employee Retirement Income Security Act of 1974, ("ERISA"). Contributions to the Profit-Sharing Plan are allocated to participants based upon the profit sharing formula contribution: three percent (3%) of gross wages up to the current Old Age, Survivors, and Disability ("OASDI") limit and six percent (6%) of the excess over the OASDI limit, as a percentage of the total contribution under the profit sharing formula The Profit-Sharing Plan's vesting terms for contributions are, twenty percent (20%) vesting after 2 years of service, forty percent (40%) after 3 years, sixty percent (60%) after 4 years, eighty percent (80%) after 5 years, and one hundred percent (100%) vesting after 6 years.

8. EMPLOYEE BENEFIT PLANS…CONTINUED

The Company maintains a retirement savings plan ("Retirement Savings Plan") qualified under Internal Revenue Code Section 401(k) for employees covered under certain collective bargaining agreements. Service eligibility requirements differ by division and collective bargaining agreements. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. Participants may also elect to make after tax voluntary contributions up to an additional ten percent (10%) of their gross earnings each year within the legal limits. The Company contributes differing amounts depending upon each division's collective bargaining agreement. Contributions are funded on a current basis. Company contributions to the Retirement Savings Plan were $232,000 and $212,000, for the years ended December 31, 2014 and 2013, respectively.

The Company maintains a separate qualified 401(k) plan ("401(k) Plan") for salaried employees not covered by a collective bargaining agreement who choose to participate. Participants may elect to have up to fifty percent (50%) of their compensation withheld, up to the maximum allowed by the Internal Revenue Code. Participants may also elect to make after tax voluntary contributions up to an additional ten percent (10%) of their gross earnings each year within the legal limits. Effective January 1, 2010. The Company contributes $0.333 of each $1.00 deferred by participants, deposited in to the 401(k) Plan not to exceed two percent (2.0%) of an employee's compensation. The Company does not match any amounts for withholding from participants in excess of six percent (6%) of their compensation or for any after tax voluntary contributions. Contributions are funded on a current basis. Company contributions to the Plan were $713,000 and $676,000, for the years ended December 31, 2014 and 2013, respectively.

Defined Benefit Plans

On December 31, 2006, the Company began recognizing the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the consolidated balance sheets with a corresponding adjustment to Accumulated Other Comprehensive Income, net of tax.

The Company's second-tier subsidiary, Met-Coil, maintained, prior to its acquisition by the Company's subsidiary, Formtek, Inc. on June 3, 2000, several defined benefit pension plans (the "Met-Coil Plans") covering certain of its employees. The Met-Coil Plans were "frozen" and merged prior to the acquisition, effectively locking in retirement benefits earned to that date and precluding any further benefits for future service. In 2014, there is an increase in the unfunded accumulated benefit obligation due to a decline in interest rates and use of the new actuarial mortality table. Pension expense under the Met-Coil Plans was $55,000 and $311,000, for the years ended December 31, 2014 and 2013, respectively.

In connection with the acquisition of the assets of Airtherm Manufacturing Company and Airtherm Products, Inc. in 2000, the Company assumed certain obligations related to the defined benefit plan maintained by Airtherm (the Airtherm Retirement Income Plan) prior to the acquisition date. The Airtherm LLC Retirement Income Plan was "frozen" prior to acquisition in a manner similar to the Met-Coil Plans described above. Pension expense under the Airtherm LLC Retirement Income Plan was $98,000 and $29,000, for the years ended December 31, 2014 and 2013, respectively.

The Company uses a December 31 measurement date for both the Airtherm LLC Retirement Income Plan and the Met-Coil Plans.

In accordance with FASB ASC 715, net unrecognized actuarial losses included in Accumulated Other Comprehensive Income are recognized as net periodic pension cost pursuant to the Company's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods that are not recognized as net periodic pension cost in the same periods are recognized as a component of other comprehensive income.

8. EMPLOYEE BENEFIT PLANS…CONTINUED

Defined Benefit Plans…Continued

Those amounts are recognized as a component of net periodic pension cost on the same basis as the amounts recognized in Accumulated Other Comprehensive Income.

Benefit Obligation and Funded Status	Met-Coil		Airtherm	
	2014	2013	2014	2013
	(Dollars in thousands)			
Accumulated Benefit Obligation at the End of the Year	$ 4,668	$ 4,243	$ 4,530	$ 4,145
Change in Projected Benefit Obligation on a Measurement Year Basis				
Projected Benefit Obligation at the Beginning of the Period	$ 4,243	$ 4,778	$ 4,145	$ 4,987
Service Cost	24	24	16	16
Interest Cost	184	165	176	150
Actuarial (Gain) Loss	584	(456)	470	(753)
Benefits Paid	(367)	(268)	(277)	(255)
Projected Benefit Obligation at the End of the Period	4,668	4,243	4,530	4,145
Change in Plan Assets on a Measurement Year Basis				
Fair Value of Plan Assets at the Beginning of the Period	3,718	3,187	3,692	3,909
Actual Return on Plan Assets	376	666	125	38
Benefits Paid	(367)	(268)	(276)	(255)
Employer Contributions	109	133	-	-
Fair Value of Assets at the End of the Period	3,836	3,718	3,541	3,692
Funded Status at the End of the Measurement Year	$ (832)	$ (525)	$ (989)	$ (453)
Weighted Average Assumptions at the End of the Year				
Discount Rate	3.93%	4.59%	3.79%	4.39%
Rate of Compensation Increase		N/A		N/A

Net Periodic Pension Cost	Met-Coil		Airtherm	
	2014	2013	2014	2013
	(Dollars in thousands)			
Service Cost	$ 24	$ 24	$ 16	$ 16
Interest Cost	183	165	176	150
Expected Return on Plan Assets	(253)	(219)	(142)	(226)
Amortization of Net Loss	100	341	48	89
Total Net Periodic Pension Cost	54	311	98	29
Net (Gain)/Loss Incurred in Year	282	(726)	459	(536)
Amortization of Net Loss	(100)	(340)	(48)	(89)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income	182	(1066)	411	(625)
Total Recognized in Net Periodic Pension Cost and other Comprehensive Income	$ 236	$ (755)	$ 509	$ (596)
Expected Return on Plan Assets	7.00%	7.00%	4.00%	6.00%

8. EMPLOYEE BENEFIT PLANS…CONTINUED

Expected Amortizations

	Met-Coil		Airtherm	
	2014	2013	2014	2013
	(Dollars in thousands)			
Expected Amortization of Net Loss	$ 204	$ 115	$ 117	$ 52

Plan Assets

	Met-Coil Percentage of Plan Assets at December 31		Airtherm Percentage of Plan Assets at December 31	
	2014	2013	2014	2013
	(Dollars in thousands)			
Plan Assets				
Equity Securities*	78%	72%	0%	0%
Debt Securities	19%	26%	15%	14%
Cash & Equivalents	0%	0%	0%	0%
Insurance Contracts	3%	2%	85%	86%
Total	100%	100%	100%	100%

* Includes no Mestek common stock at either December 31, 2014 or 2013.

Long-Term Rate of Return Assumption – Met-Coil

The approach used to determine the expected long-term rate of return on plan assets assumption is based on weighting historical market index returns for various asset classes in proportion to the plan assets. Typically, the Trust holds approximately 60% of assets in equity securities and 40% in fixed income securities. Weighting 10-year compounded trailing returns on equity and fixed income indices in proportion to the above asset mix yields an expected long-term return of 7%.

Long-Term Rate of Return Assumption – Airtherm

The approach used to determine the expected long-term rate of return on plan assets assumption is based on weighting historical market index returns for various assets classes in proportion to the plan assets. The assets of the Plan are invested in the general account of Prudential Retirement. The general account is invested in corporate bonds and mortgages, which were expected to return between 6.0% and 6.4%, and Private Placements which were expected to return approximately 6.25%. This yielded an expected long -term assumption of 4.0%.

Cash Flows

	Met-Coil	Airtherm
	(Dollars in thousands)	
(1) Expected Contributions for Fiscal Year Ending 12/31/2015		
(a) Expected Employer Contributions	$ 18	$ -
(b) Expected Employee Contributions	-	-
(2) Estimated Future Benefit Payments Reflecting Expected Future Service for the Fiscal Year(s) Ending		
(a) 12/31/2015	$ 271	$ 297
(b) 12/31/2016	271	320
(c) 12/31/2017	274	326
(d) 12/31/2018	279	324
(e) 12/31/2019	272	319
(f) 12/31/2020- 12/31/2022	1,413	1,496

8. EMPLOYEE BENEFIT PLANS…CONTINUED

Other Accounting Items

	Met-Coil		Airtherm	
	2014	2013	2014	2013
	(Dollars in thousands)			
Alternative Amortization Methods Used to Amortize				
Prior Service Cost	Straight Line	Straight Line	N/A	N/A
Unrecognized Net (Gain)/Loss	Straight Line	Straight Line	**	**
Average Future Service / Lifetime	4.75	5.18	6.66	6.64

** Excess (if any) over 10% of the greater of the projected benefit obligation or the market-related value of plan assets is divided by the average remaining service period of active employees expected to receive benefits under the plan.

Fair Value Measurements

Accounting for *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plans have the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the assets or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Insurance contract in a guaranteed deposit fund: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

8. EMPLOYEE BENEFIT PLANS…CONTINUED

Fair Value Measurements…Continued

Pooled separate accounts: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Mutual funds: Mutual funds are valued at the quoted market prices. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied.

The following table sets forth by level, within the fair value hierarchy, the Airtherm Retirement Income Pension Plan assets at fair value as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Insurance contract	$ -	$ 3,024	$ -	$ 3,024
Pooled separate accounts	-	517	-	517
Total assets at fair value	$ -	$ 3,541	$ -	$ 3,541

The following table sets forth by level, within the fair value hierarchy, the Met-Coil Systems Corporation Pension Plan assets at fair value as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Insurance contract	$ -	$ 100	$ -	$ 100
Pooled Separate Accounts	-	713	-	713
Mutual funds	3,023	-	-	3,023
Total assets at fair value	$ 3,023	$ 813	$ -	$ 3,836

The following table sets forth by level, within the fair value hierarchy, the Airtherm Retirement Income Pension Plan assets at fair value as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Insurance contract	$ -	$ 3,175	$ -	$ 3,175
Pooled separate accounts	-	517	-	517
Total assets at fair value	$ -	$ 3,692	$ -	$ 3,692

The following table sets forth by level, within the fair value hierarchy, the Met-Coil Systems Corporation Pension Plan assets at fair value as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Insurance contract	$ -	$ 66	$ -	$ 66
Pooled Separate Accounts	-	959	-	959
Mutual funds	2,693	-	-	2,693
Total assets at fair value	$ 2,693	$ 1,025	$ -	$ 3,718

8. EMPLOYEE BENEFIT PLANS…CONTINUED

Multiemployer Pension Plans

One of the Company's subsidiaries contributes to a multi-employer union administered pension plan in connection with its collective bargaining agreement. The terms of collective participation in the multiemployer plan are different from single-employer plans in that assets contributed are pooled and may be used to provide benefits to employees of other participating employers. The Company's contributions are less than one tenth of 1% of total contributions to the Plan for the years ended December 31, 2014 and 2013.

9. COMMITMENTS AND CONTINGENCIES

Indemnifications

The Company is obligated under Indemnity Agreements ("Indemnity Agreements") executed on behalf of 18 of the Company's officers and directors. Under the terms of the Indemnity Agreements, the Company is contingently liable for costs which may be incurred by the officers and directors in connection with claims arising by reason of these individuals' roles as officers and directors of the Company.

Contingencies

Letters of Credit

The Company had outstanding at December 31, 2014, $7,027,000 in standby letters of credit issued in connection with the TCE PI Trust and $2,274,000 issued principally in connection with its commercial insurance programs. In addition, a letter of credit was issued on July 19, 2005 in the amount of $4,481,000 in connection with the $4,430,000 Industrial Development Authority Bond (see Note 5) for the City of Bridgeton, MO, the balance of which is reduced to reflect principal payments made on the note. The balance on the Bridgeton Industrial Development Authority letter of credit was $2,630,000 as of December 31, 2014.

Insurance

The Company retains significant obligations under its commercial general liability insurance policies for product liability and other losses. For losses occurring in the policy years ending October 1, 2004 through 2014, the Company maintains commercial general liability insurance, retaining liability for the first $2,000,000 per occurrence of commercial general liability claims (including products liability claims), subject to an agreed aggregate. For losses occurring in the policy year ended October 31, 2003, the Company retained liability for the first $500,000 per occurrence of commercial general liability claims (including product liability), subject to an agreed aggregate. In addition, the Company retains liability for the first $250,000 per occurrence of workers compensation coverage, subject to an agreed aggregate. Included in other accrued liabilities in the accompanying consolidated balance sheets are self-insurance reserves totaling approximately $674,000 and $559,000 for the years ended December 31, 2014 and 2013, respectively.

Litigation

The Company is subject to several legal actions and proceedings in which various monetary claims are asserted. Management, after consultation with its corporate legal department and outside counsel, does not anticipate that any ultimate liability arising out of all such litigation and proceedings will have a material adverse effect on the financial condition of the Company except as set forth below.

Environmental Litigation and Remediation Reserves

The Company maintains an environmental reserve related to the settlement of litigation in 2004 connected with the Company's Lisle, IL manufacturing facility. The environmental reserve covers the Company's obligations to perform certain soil and ground water remediation procedures at the Lisle facility and the Company's related obligation to fund a trust (the "TCE PI Trust") established in connection with the settlement for the purpose of administering future personal injury claims relating to the Lisle facility.

9. COMMITMENTS AND CONTINGENCIES…CONTINUED

Environmental Litigation and Remediation Reserves…Continued

Activity related to the environmental reserve in 2014 and 2013 was as follows:

	2014	2013
	(Dollars in thousands)	
Balance Beginning of the Year	$ 8,466	$ 9,082
Less Remediation Related Expenditures	(414)	(378)
Less TCE PI Trust Fund Payments	(256)	(238)
Balance End of the Year	$ 7,796	$ 8,466

These reserves have been established in accordance with ASC 450 "Contingencies". They represent management's best estimate of these liabilities, and are based upon known or anticipated claims estimated by various legal, scientific and economic experts. There is no assurance that these reserves will be adequate to meet all potentials personal and property claims arising from the environmental contamination at the Lisle, IL site, however, claim activity has been lower to date than originally forecasted.

The Company is continuing with the remediation of the Lisle, IL facility, pursuant to a work plan for the site while awaiting approval from the IEPA of the ground water remedial standards to be achieved by the work plan, as well as the methodology for ground water remediation. The Company has guaranteed to the IEPA up to $3,000,000 of remediation costs incurred by either Met-Coil or, if Met-Coil fails to perform the remediation, the IEPA.

Based on claim experience through December 31, 2014, the Company has classified $488,000 of the above reserve as current as of December 31, 2014. Annually the Company reviews the existing third party claim and remediation cost estimates, and determines based on actual claim data whether an updated analysis is necessary. Given the level of expenses to date the Company believes that the existing analysis remains appropriate as of December 31, 2014 and will revise its reserves in future periods as a result of actual activity.

Other Claims Alleging Releases of Hazardous Materials or Asbestos Related Liability

As of December 31, 2014, the Company is a party to approximately 140 asbestos-related lawsuits many in Texas where numerous asbestos-related actions have been filed against numerous defendants. The lawsuits previously pending against the Company in Illinois have all been resolved by plaintiffs' dismissals without payment.

Almost all of these suits seek to establish liability against the Company as successor to companies that may have manufactured, sold or distributed asbestos-related products, and who are currently in existence and defending thousands of asbestos related cases, or because the Company currently sells and distributes boilers, an industry that has been historically associated with asbestos-related products. The Company believes it has valid defenses to all of the pending claims and vigorously contests that it is a successor to companies that may have manufactured, sold or distributed any product containing asbestos materials. However, the results of asbestos litigation have been unpredictable, and accordingly, an adverse decision or adverse decisions in these cases, individually or in the aggregate, could materially adversely affect the financial position and results of operation of the Company and could expose the Company to substantial additional asbestos related litigation and the defense costs thereof, which defense costs, because of the sheer number of asbestos claimants and the historical course of the litigation process in this area has the potential to become substantial, though these costs are not capable of estimation at this time. The total requested damages of these cases are over $3 billion. To date the Company has had approximately 400 asbestos-related cases dismissed without any payment and it settled approximately twenty-six asbestos-related cases for a *de minimus* value. However, there can be no assurance the Company will be able to successfully defend or settle any pending litigation.

9. COMMITMENTS AND CONTINGENCIES…CONTINUED

Other Claims Alleging Releases of Hazardous Materials or Asbestos Related Liability…Continued

In addition to the Lisle, IL site, the Company has been named or contacted by state authorities and/or the EPA regarding the Company's asserted liability or has otherwise determined it may be required to expend funds for the remediation of certain other sites in North Carolina, Connecticut and Pennsylvania.

The Company continues to investigate all of these matters. Given the information presently known, no estimation can be made of any liability which the Company may have with respect to these matters. There can be no assurance, but based on the information presently available the Company does not believe that any of these matters will be material to the Company's financial position or results of operations.

The Company considers whether any additional exposure exists as it relates to ASC 410 "Asset Retirement and Environmental Obligations" which requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. At December 31, 2014 and 2013, the Company is unable to estimate the ranges or probabilities of any potential asset retirement obligations that have not previously been identified.

10. SHAREHOLDERS' EQUITY

Mestek has authorized common stock of 20,000,000 shares with no par value, and a stated value of $0.05 per share. As of December 31, 2014, the Estate of John E. Reed, and Stewart B. Reed, Chairman and CEO of Mestek, together beneficially own a majority of the outstanding shares of Mestek's common stock.

The Company did not repurchase any of its common shares in the open market in 2014 or 2013.

11. STOCK OPTION PLANS

In 2011, the Company adopted a stock option plan (the Plan) that provides for the granting of qualified (also known as incentive stock options) and nonqualified stock options to Company directors, officers, employees, and consultants. A total of 300,000 shares of the Company's common stock were issuable under the Plan. The qualified options vest after a five-year period.

Employee and Director stock option activity for the year ended December 31, 2014 and 2013 was as follows:

	Number of Options	Exercise Price Range	Weighted-Average Exercise Price
Outstanding at December 31, 2012	138,000	$ 9.30	$ 9.30
Granted – 2013	-	-	-
Exercised (Directors non-qualified options)	-	-	-
Forfeited/cancelled	-	-	-
Outstanding at December 31, 2013	138,000	$ 9.30	$ 9.30
Granted – 2014	-	-	-
Exercised	-	-	-
Forfeited/cancelled	-	-	-
Outstanding at December 31, 2014	138,000	$ 9.30	$ 9.30
Exercisable at December 31, 2014	-	$ -	$ -

11. STOCK OPTION PLANS…CONTINUED

The following table summarizes information about stock options outstanding at December 31, 2014:

	Options Vested and Expected to Vest			Options Vested		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$9.30	138,000	7.75	$9.30	-	-	-

At December 31, 2014, 127,000 shares remain available for future grant.

In October 2012, the Company and the holders of the Incentive Stock Options issued in 2011 agreed to a modification of the Incentive Stock Options whereby the option holders gave up certain accelerated vesting rights and received in return a right to a reduced exercise price at a future date contingent upon continued employment beyond the vesting period established in the Incentive Stock Options. The intent of the modification was to make the option holders approximately whole for the accelerated vesting rights given up and, accordingly, management does not believe the net impact on the Company, or the option holders, was material.

The effect on the option holders was to reduce the exercise price to $8.30 at the end of the year #6, $7.30 at the end of the year #7, and $6.30 at the end of the year #8, contingent upon continued employment through those dates compensating the options holders for the effect on the options of the $3.00 special dividend paid by the Company in December of 2012.

12. PLANT SHUTDOWNS, IMPAIRMENT LOSSES, AND ASSET SALES

The Company continues to incur costs related to "exit and disposal" activities for manufacturing plants shut down prior to 2011 which are accounted for, in accordance with ASC 420 *Exit or Disposal Cost Obligations*. In the years ended December 31, 2014 and 2013, the Company incurred $157,000 and $0, respectively, of such "exit and disposal" costs which are classified separately in the accompanying financial statements in accordance with ASC 420.

Loss on Sale of Assets-2013

On various occasions during 2014 the Company sold certain surplus manufacturing assets of the Company's idled manufacturing facilities resulting in a net loss of $36,000.

Loss on Impairment of Assets-2014

On January 31, 2014, the Company completed the sale of an idled manufacturing plant located in Wrens, GA for cash consideration of $750,000. The Company recorded an Impairment Loss of $1,257,000 in 2013 in connection with this transaction.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 27, 2015, the date which the financial statements were available to be issued and no additional disclosures or adjustments were required.

WEBSITES

mestek.com
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CORPORATE DATA

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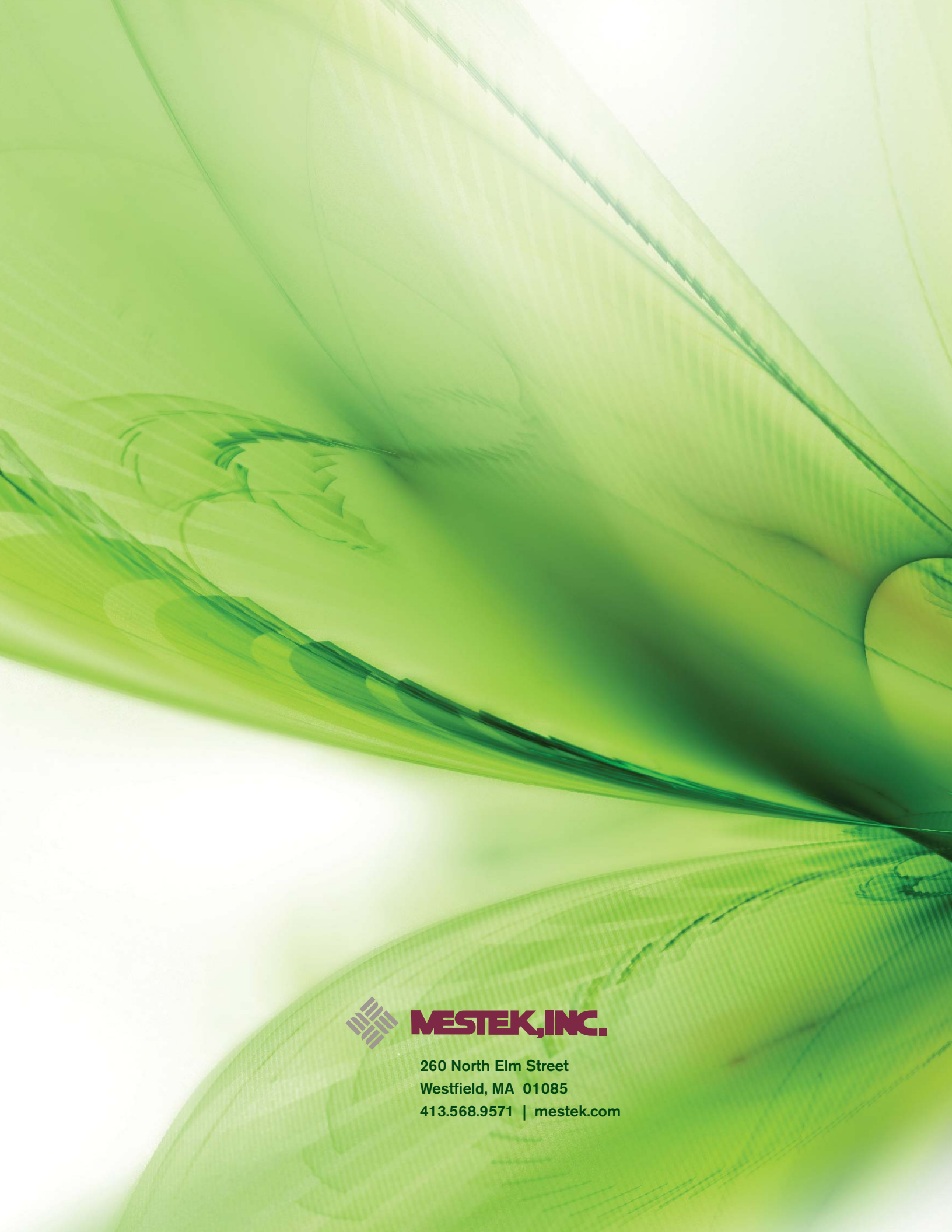
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ANNUAL REPORT

Stockholders may obtain, free of charge, a copy of the Company's Annual Report by writing to the Secretary, Mestek, Inc.,
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