



**SECOND QUARTER REPORT
TO SHAREHOLDERS**

**For the quarter ended
June 30, 2015**



MESTEK, INC.

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September 2015

Fellow Shareholders,

Second quarter revenues and profits were disappointing, especially so given better construction industry activity. General conditions continue to improve due to ultra-low interest rates, continuing job market improvements, and population growth. During the second quarter, overall, Mestek has failed to participate in the moderate construction rebound. Let's address the particulars.

Boiler sales declined marginally due to the loss of an important independent sales organization, a short term problem but perhaps a long term benefit. This sales company was drifting away from our business model toward more commodity wholesaler products. We have taken prompt action to restore quality sales representation; but results will necessarily be delayed. R&D expenses continue to increase causing the pipeline of new and improved products to grow larger and nearer to launch each quarter. Naturally, the market success of these new products is not assured; yet I remain convinced that the risk versus reward equations are favorable.

Mission critical (data center HVAC systems) had a down quarter. I'm convinced that we are doing the right new product development and building the right relationships. It may sound trite; but we are trying to build a great business rather than concentrate on quarterly profits. Our financial strength allows us to do so. Machinery sales declined 4% during the second quarter; and earnings declined substantially due to international losses. The Asian slowdown hit us concurrent with bringing our new and expanded Hebei, China manufacturing business on stream. I remain enthusiastic about this facility, the management, and the prospects for new products serving Asian markets, especially China and India. Asia will continue to offer huge opportunities despite current Chinese retrenchment.

Perhaps your comparatively fearless CEO should have been more fearful; we suffered a pretax loss of \$1.7 million in Mestek's hedging and speculative commodity account. My recent ideas and theories were rejected by Mr. Market during the second quarter, mea culpa. Mestek is primarily a focused manufacturing enterprise, secondarily a small hedge fund at times, yet another reason why Mestek is a somewhat oddball investment. Mestek continues to take macro hedging and speculative market positions from time to time. As a major shareholder, at least I can assure you that our interests are aligned, and that my market activities are intended solely to benefit Mestek and its shareholders.

Second quarter revenues declined 4% to \$79.8 million; and operating profits declined to \$4.0 million (including commodity losses) from \$6.9 million last year. Six month revenues increased 2% to \$162.5 million; and operating profits (including commodity losses) declined to \$10.6 million from \$11.8 million. In effect, YTD operating profits were somewhat better except for my trading losses. Mea culpa once again.

Our balance sheet remains rock solid, \$51 million in cash and an unused \$60 million revolving bank line. We continue to warmly welcome suitable acquisition opportunities, and sincerely believe we are the best home for quality companies in our industries. Our culture is never subservient to Wall Street; to the contrary, we respect the successful cultures of the businesses we acquire. We believe in people more than elaborate business strategies; our employees and customer relationships are Mestek's most valuable assets. In fact, we treasure these mutually beneficial relationships, the key to our future success.

With sincere gratitude to our patient shareholder partners, our oars remain fully in the water.

With kind regards,

Stewart B. Reed
Chairman & Chief Executive Officer

MESTEK, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(Dollars in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Sales	\$79,822	\$83,491	\$162,545	\$159,536
Cost of Goods Sold	<u>54,662</u>	<u>56,194</u>	<u>110,457</u>	<u>109,431</u>
Gross Profit	25,160	27,297	52,088	50,105
Selling Expense	9,827	10,447	21,148	19,959
General and Administrative Expense	5,580	7,115	11,335	12,421
Engineering Expense	3,518	2,971	6,827	5,808
(Gain) Loss on Sale of Property and Equipment	--	26	(1)	53
Plant Shutdown Expense and Other Items	<u>2,242</u>	<u>(157)</u>	<u>2,172</u>	<u>31</u>
Operating Profit	3,993	6,895	10,607	11,833
Interest Income (Expense) - net	7	(35)	6	(87)
Other Income (Expense) - net	<u>10</u>	<u>72</u>	<u>21</u>	<u>152</u>
Income Before Income Taxes	4,010	6,932	10,634	11,898
Provision for Income Tax	<u>1,532</u>	<u>2,584</u>	<u>4,084</u>	<u>4,583</u>
Net Income from Continuing Operations	2,478	4,348	6,550	7,315
Less : Net Income - Non-controlling Interests	<u>15</u>	<u>(64)</u>	<u>19</u>	<u>(69)</u>
Net Income (Loss) Attributable to Mestek, Inc.	<u>\$2,493</u>	<u>\$4,284</u>	<u>\$6,569</u>	<u>\$7,246</u>
Basic and Diluted Earnings Per Common Share	<u>\$0.33</u>	<u>\$0.57</u>	<u>\$0.88</u>	<u>\$0.97</u>
Basic and Diluted Weighted Average Shares Outstanding	<u>7,491</u>	<u>7,491</u>	<u>7,491</u>	<u>7,491</u>

MESTEK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in Thousands)

	June 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 50,803	\$ 54,408
Accounts Receivable - less allowances of \$4,700 and \$4,785, respectively	45,378	49,229
Inventories - net	52,412	46,767
Deferred Tax Assets	2,868	4,051
Other Current Assets	8,150	8,628
Total Current Assets	159,611	163,083
 Property and Equipment - net	 43,578	 43,004
Property Held for Sale	2,327	2,327
Deferred Tax Assets	-	722
Other Assets - net	3,847	3,920
Goodwill	24,921	25,054
Total Assets	\$ 234,284	\$ 238,110
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current Portion of Long Term Debt	\$ 175	\$ 175
Accounts Payable	11,759	12,776
Accrued Payroll and Related Expenses	12,398	17,171
Customer Deposits	13,997	14,796
Current Portion of Environmental Reserves	420	488
Warranty Reserve	3,313	3,458
Other Accrued Liabilities	13,235	15,546
Total Current Liabilities	55,297	64,410
 Environmental Reserves - long term	 7,219	 7,308
Long-Term Debt	10,163	10,163
Other Liabilities	1,356	1,821
Total Liabilities	74,035	83,702
 SHAREHOLDERS' EQUITY		
Controlling Interest:		
Common Stock, no par, stated value \$0.05 per share, 20,000,000 shares authorized 8,368,726 shares issued	417	417
Paid in Capital	5,054	5,054
Retained Earnings	165,196	158,629
Treasury Shares, at cost (878,010 common shares)	(11,294)	(11,293)
Accumulated Other Comprehensive Income	(845)	(138)
Total Mestek, Inc. Shareholders' Equity	158,528	152,669
Non-controlling Interest	1,721	1,739
Total Shareholders' Equity	160,249	154,408
 Total Liabilities and Shareholders' Equity	 \$ 234,284	 \$ 238,110